YLC submission – Retirement Income Review

Dignity for all

Who is YourLifeChoices?
YourLifeChoices is Australia's longest established (1999) and largest membership (230,000) digital retirement community. Members receive daily enews updating them on all matters retirement, particularly income, health and travel, based on the mission statement: Delivering up-to-date, independent, authoritative information and essential resources – anywhere, anytime and on any device – for Australians seeking affordable retirement solutions.
Over time, **YourLifeChoices** has responded to government requests for survey information in its endeavours to improve the lives of older Australians in the areas of cybersafety, ageism and tax. In the first instance, we ran research to help with the Australian Human Rights Commission inquiry (2016) into older people and work.
We also conducted research for the Joint Select Committee on Cyber-Safety (2012) and participated in the Inquiry into Cybersafety for Senior Australians. Separately, we assisted with and conducted further research to assist the Standing Committee on Tax and Revenue (2017) with the Inquiry into Taxpayer Engagement with the Tax System.

Establishing the *Retirement Affordability Index*™
While most commentary refers to retirement as a distinct life stage, Australia's retirees are far from a homogenous group. In 2016, **YourLifeChoices** decided to tackle the many misconceptions around retirees being a wealth and greedy generation. We also felt that the continual reference to the need for $1 million in savings for a couple to fund a so-called 'comfortable' retirement was discouraging most Australians from tackling their financial planning for retirement needs. This amount was often based on an extrapolation of amounts suggested by the ASFA Retirement Living Standard for a comfortable or modest retirement.
We held concerns that the lack of acknowledgement of mortgage repayments and those who were renting did little to support accurate retirement income projections. We approached The Australia Institute, working with senior economist Matt Grudnoff to use ABS data on actual expenditure in retirement, according to status. The Australian Bureau of Statistics supplies this data, which has allowed us to create statistically useful information on the following retirement categories:

- Homeowners, self-funded by couples and singles (Affluents)
- Homeowners on full or part Age Pension, by couples and singles (Constrained)
- Renters on full Age Pension (Cash-Strapped).

This information and expenditure tables were first published in the March 2017 edition of the *Retirement Affordability Index*™, then adjusted by CPI and published on a quarterly basis. It is sent

to all 230,000 **YourLifeChoices** members to assist them to benchmark their expenditure against that of like retirees – i.e. their tribe.
Estimated expenditures of the six retirement tribes after the September 2019 cost-of-living increases are below:

Weekly expenditure for retirees aged 54+	Affluent Couples	Constrained Couples	Cash-Strapped Couples	Affluent Singles	Constrained Singles	Cash-Strapped Singles
Expenditure items	Couple homeowners with private income	Couple homeowners on Age Pension	Couple who rent on Age Pension	Single homeowner with private income	Single homeowner on Age Pension	Single who rents on Age Pension
Housing	$182.07	$107.61	$203.81	$122.34	$90.29	$160.56
As a percentage of expenditure	12%	13%	29%	15%	19%	36%
Domestic fuel & power	$45.32	$34.04	$35.93	$32.78	$29.34	$24.90
As a percentage of expenditure	3%	4%	5%	4%	6%	6%
Food & non-alcoholic beverages	$240.04	$169.07	$152.87	$120.59	$84.76	$75.96
As a percentage of expenditure	16%	20%	22%	14%	18%	17%
Alcoholic beverages & tobacco products	$54.52	$27.81	$45.05	$27.47	$15.80	$21.72
As a percentage of expenditure	4%	3%	6%	3%	3%	5%
Clothing and footwear	$31.14	$17.67	$9.35	$20.71	$8.98	$7.41
As a percentage of expenditure	2%	2%	1%	2%	2%	2%
Household furnishings & equipment	$74.23	$32.21	$19.59	$40.62	$18.86	$15.04
As a percentage of expenditure	5%	4%	3%	5%	4%	3%
Household services & operation	$41.65	$29.47	$15.92	$37.58	$21.24	$11.28
As a percentage of expenditure	3%	3%	2%	4%	5%	3%
Medical & health care	$147.33	$105.01	$36.36	$84.59	$37.46	$22.17
As a percentage of expenditure	10%	12% (-1%)	5%	10%	8%	5%
Transport	$195.61	$126.98	$60.38	$103.62	$52.85	$35.64
As a percentage of expenditure	13%	15%	9%	12%	11%	8%
Communication	$35.45	$25.13	$27.19	$34.31	$17.71	$13.82
As a percentage of expenditure	2%	3%	4%	4%	4%	3%
Recreation	$299.02	$101.54	$66.02	$139.27	$52.39	$31.62
As a percentage of expenditure	20%	12%	9%	17% (+1%)	11%	7%
Education	$0.6	$0.22	$0	$0.13	$0.12	$0.01
As a percentage of expenditure	0%	0%	0%	0%	0%	0%
Personal care	$29.36	$17.82	$12.39	$18.29	$9.65	$8.55
As a percentage of expenditure	2%	2%	2%	2%	2%	2%
Miscellaneous goods & services	$89.19	$48.10	$24.05	$54.14	$26.35	$16.41
As a percentage of expenditure	6%	6%	3%	6%	6%	4%
Total weekly expenditure	**$1,465.54** +$7.53*	**$842.66** +$3.34*	**$708.91** +$3.01*	**$836.45** +$4.00*	**$465.80** +$2.04*	**$445.11** +1.85*
Total monthly expenditure	**$6,350.68** +$32.63*	**$3,651.54** +$14.49*	**$3,071.95** +$13.07*	**$3,624.60** +$17.34*	**$2,018.47** +$8.83*	**$1,928.79** +$8.01*
Total annual expenditure	**$76,208.21** +$391.65*	**$43,818.52** +$173.96*	**$36,863.36** +$156.77*	**$43,495.20** +$208.03*	**$24,221.68** +$106.05*	**$23,145.47** +$96.10*

**Percentage and dollar changes compared with June quarter figures*

Why is YourLifeChoices submitting?
YourLifeChoices prides itself on being the voice of retirement. It has conducted longitudinal research since 2005 and 230,000 members participate in multiple surveys each year, providing valuable feedback on government policy and the challenges of life in retirement. Among a slew of not-for-profit, industry and other submissions, we felt it was essential to give a voice to the *real* retirees who are directly affected by the outcomes of this review.
We felt it important to present these voices and, further, to sub-segment by tribe, in order to identify the very different experiences of retirees and the varied pain points that require a range of solutions. Additionally, we wanted to ask the obvious and not-so-obvious questions being overlooked by others, in order to challenge lazy assumptions and highlight points that might be overlooked – such as the priority of home ownership as a fourth, but *essential*, pillar – and whether retirees feel supported by the current system.

How we approached our research
In order to pinpoint key questions, we reviewed what we had learnt through our years of research. We then conducted the *Retirement Income Review Survey 2019* over five weeks from 8 November–15 December. It drew 4941 responses to 51 questions designed to provide an accurate and up-to-date view of the country's retirement income system.
Of the 4941 respondents, 49 per cent were female, 50.8 per cent male, and 0.2 per cent identified as other.
The ages of respondents were:

- under 45 0.6%
- 45-49 0.5%
- 50-59 6.8%
- 60-69 46.5%

- 70-79 38.9%
- 80-plus 6.6%.

They belonged to the six tribes as follows:

- Affluent couples 29.3%
- Affluent singles 9.3%
- Constrained couples 33.6%
- Constrained singles 16.2%
- Cash-Strapped couples 3.8%
- Cash-Strapped singles 7.8%.

For ease of discussion of the responses, we will refer only to three main tribes – couple and single affluent, constrained and cash-strapped households.

We also knew we would gather volumes of 'real' comments to give the retirement income review panel the missing voices that are often not heard by policy-makers and politicians. Such as these comments that were oft repeated in response to question nine, What doesn't work?

"Contact with Centrelink."

"Age Pension levels too low."

"Everything."

"Pension confusion, should be simple without asset tests."

"It's very unequal. Women have not been able to save … to help their retirement, e.g. super, as we are not employed full time."

"Governments live on cloud nine. They have no idea of the lives of pensioners."

"Prices are rising all around us and there is no relief. As retirees on fixed income it is unquestionably getting harder ... The parcel of goods the government uses for rate of inflation appears to be incongruous with the rate that prices are rising for living expenses."

"(a) The 'shifting goalposts' in as far as retirement age is concerned… (b) We want assurance from Government that cuts to the Age Pension ARE NOT introduced to offset 'perceived revenue losses' created from payments to people who have been unemployed and on 'welfare benefits' all their lives, and those who have 'bucked the system' for most of their lives. (c) Tax for working pensioners should be lower and we are sure that the Income and Assets test will help to enable that. (d) A 3%-4% increase in the Age Pension payment may help age pensioners to live a little more comfortably, without having to 'scrimp and scrape' each fortnight. (e) Some form of 'recognition for those 'oldies' who have worked for 50 plus years of their lives, raised a family, and have contributed in some way to our community."

"Pensioners can't survive on the paltry sum. Pensioners have to decide whether to eat, buy medication or keep themselves warm/cool."

"Too few concessions for pensioners."

"It [pension] should not be means tested. We need a non-means tested Age Pension, as in the UK. That would get the massive Centrelink bureaucracy out of our lives."

"The asset test and taper rate has been doubled since 2017 removing part pensioners. The taper rate should be reversed."

"Too little money; too many hurdles to get support."

"People renting in the private sector need a higher pension or higher rental allowance."

"The system is unfair and feels almost as if you work hard and save your money you are left to look after yourself, but if you spend everything having a good time then the government will give you a handout. It's not that simple of course but there are a lot of inequities in the system …"

What we discovered

Australia has a problem.

Almost 70 per cent (68.91per cent) of respondents to YourLifeChoices' *Retirement Income Review Survey 2019* replied 'no' to the question*, Do you feel fully supported by the Australian retirement system?*
This can only mean the current system is not working.
Another fundamental problem is that the government review is based on the premise that there are three pillars in retirement: a means-tested Age Pension, compulsory superannuation, and voluntary savings, *including* home ownership.
We suspected the family home was so important that it deserved to be treated separately – a fourth pillar. This perspective was vindicated when we asked respondents in question 10 to *Rank the importance (to you) of the four retirement pillars (Age Pension, compulsory superannuation, voluntary savings or family home).* The family home was ranked as the *most* important pillar in retirement 72.26 per cent) compared to the Age Pension (58.38 per cent), superannuation (57.04 per cent) and voluntary savings (41.4 per cent).
This reveals a fundamental misunderstanding of the most important source of wealth, security and wellbeing in our later years.

Let's now consider the four aspects of the retirement income review: adequacy, equity, sustainability and cohesion.

Adequacy

Questions 14–17 and 22 go to the heart of retirees' attitudes towards the lack of adequacy inherent in our retirement income system.
When asked if the current Age Pension base rate is sufficient, a resounding 80.66 per cent said no and just 19.34 per cent yes. When segmented by tribe, 74.06 per cent of Affluents (self-funded homeowners) said no, along with 83.11 per cent of Constrained tribe respondents (homeowners on a full or part pension) and 91.67 per cent of Cash-strapped respondents (those renting on a pension).
This finding is also supported by organisations such as ACOSS (Australian Council of Social Services), which has determined that 12 per cent of Australian pensioners are living in poverty. The OECD, which uses a different method to assess old age income poverty, found that 22 per cent of Australians aged 66 and over suffered from income poverty, ranking us 36th in the world – which is ironic given Australia's fifth-placed ranking on a wealth-per-household measure.
Asked if the Age Pension base rate should be increased (question 15), 46.6 per cent said yes by at least 30-40 per cent; 20.24 per cent said yes by 50-60 per cent and 25.45 per cent said by10-20 per cent.
Asked about the current income disqualifying threshold settings (question 16), an overwhelming 83.71 per cent said they were unrealistic. At the core of this issue is the need for more flexibility to earn an income while receiving an Age Pension. It is fair to say that New Zealand pension rules are far more flexible in this respect – and that New Zealand enjoys the greater productivity gains that flow from allowing older citizens to work for longer. It is apparent that older Australians simply should not be forced to exist in poverty (see above) simply because their main source of income, the Age Pension, will be reduced or removed, if they work longer hours each week.
Asked about the suitability of asset thresholds (question 17), 57.91 per cent said they were too high.
And finally, asked whether the rental supplement attached to the Age Pension was sufficient (question 22), 81.1 per cent said no and 37.5 per cent of respondents said it should be increased by 30-40 per cent.

Equity

It is worth considering the full responses to *Will this income (your main source) provide you with a dignified retirement?* (question 12) If we analyse responses from each retirement tribe, we see where the challenge to equity in our system exists.
Affluent couples answered: yes (56.7%), unsure (29.20%), no, (14.10%)

Constrained couples were far less comfortable: yes (23.71%), unsure (29.11%), no, (47.18%)
The Cash-Strapped were unequivocal: yes (10.93%), unsure (19.54%), no (69.54%).
This question sits at the heart of the retirement income policy debate. There is no one typical retiree – there are three broad groups – and home ownership underpins the confidence and security of two of those groups. Renting in retirement almost certainly spells a later life of poverty and hardship and insecurity.
Unless these cohorts are considered in relation to the benefits they receive and the taxes they pay, there will never be equity for all. This subject has been covered by many think tanks. In particular The Australia Institute has considered the benefits of a Universal Age Pension, partly funded by the cutting of the multiple concessions currently attached to superannuation savings and earnings.
In question 21, we asked whether Australians should receive a Universal Age Pension, regardless of income and assets, and while the overall response was yes (53.52%), the responses again varied according to the tribes:

- Affluent – yes 65.49%,
- Constrained – yes 47.05%
- Cash-strapped – yes 42.47%

Question 29 asked, *Should there be special provision for women whose balances are typically below the average?* – 81.64 per cent of respondents said yes. Interestingly, there was more agreement across the tribes on this question, with 'yes' being answered by 76 per cent of Affluents, agreeing with 83.84 per cent of Constrained respondents and 85.86 per cent of those who are Cash-Strapped.

Sustainability

As noted above, the core response to whether Australians are supported by our current retirement income system is *no*. If we look at sustainability as government 'affordability', then it is clear that the amount spent on the Age Pension as a percentage of the GDP is very low – in fact the fourth least among OECD nations. So while there are many political statements that the Age Pension is unsustainable and a burden on future generations, the maths suggest otherwise.
We certainly don't spend much on it, relative to most other developed economies, and the numbers of citizens receiving the Age Pension has also reduced, as stated in the consultancy paper for this review.
Could this money be better spent or better targeted?
No doubt.
One factor affecting the sustainability of retirement income is interest rates. As recently as 15 years ago, many financial planners told their clients to confidently project a five per cent return on cash deposits, and a higher amount on term deposits. Few could have predicted the current slough in market rates and that the Reserve Bank cash rate languishing at 0.75 per cent.
And according to the *Retirement Income Review Survey 2019* (question 35), 22.02 per cent have most of their money in cash, and a further 15.06 per cent have invested in term deposits. In response to question 37, *To what extent are current low interest rates hurting your retirement income?*, 58 per cent stated badly or very badly and just 32 per cent said not at all or not much. We can see that market rates are contributing to a lack of sustainability and a very real fear that, unless a higher risk return product is sought out, the income retirees can earn will be so low as to force them to draw down on their capital.
Sustainability is also under pressure when retirees consider their later life needs. In question 43, 59.76 per cent of respondents said they planned to stay in their home until the end of life, but only 20.31 per cent of these respondents agreed they had planned for the cost of aged care in their homes (question 44). The 'mañana' principle is alive and well, with 'I'll get around to it when I need to' hardly a recipe for success in funding longevity.

When it comes to working longer to fund longevity, the tribes are aligned, with 65.11 per cent of respondents believing there need to be more incentives for people to work for longer. When broken down by retirement tribe, this was:

- 64.36% Affluents
- 65.79% Constrained
- 64.56% Cash-Strapped.

By preventing those aged 66 and older from participating more fully in the workforce, we are reducing their income, reducing national productivity and increasing health concerns. Tackling current restrictions on working longer (including ageism) should be one of the first priorities of the government's review.

Cohesion

Questions 25, 26, 30, 31, 32 and 33 relate to the subject of cohesion within Australia's retirement income system.

Responses to question 25 emphatically underscore that the current method of reviewing and/or changing deeming rates results in lower income for all tribes. A resounding 89.46 per cent of respondents believe this should not be the responsibility of the relevant minister, but that rates should be changed automatically in line with another indicator, such as the Reserve Bank cash rate.

There was similar consensus among the tribes on taper rates. When asked, *Should the taper rate (part of the Age Pension assets test which doubled in 2017 to reduce a retiree's annual pension by $78 for each $1000 of assets above the relevant threshold) be reassessed?,* the results, by tribe, were:

- Affluents, yes, 83.97%
- Constrained yes, 81.22%
- Cash-Strapped, yes, 79.86%.

This change to the taper rate has been questioned by many commentators, most recently by economist Sean Corbett.

Another concern is the transparency of superannuation fees. When asked, *Are superannuation fees sufficiently transparent? (*question 30)*,* 74.49 per cent of respondents said no. In response to question 31, *Can you easily compare funds' performances?* 70.68 per cent of respondents said no.

Separately, 74.44 per cent of respondents to question 32, *Are there sufficient decumulation products?*, said no.

Responses to question 33, *Which retirement products and/or services will you most likely consider using/or have used*? show most retirees are actively considering such strategies as the government's Pension Loans Scheme, a reverse mortgage, annuity, or other ways of supplementing their retirement income. Given previously expressed concerns about the complexity of detail attached to the Age Pension and superannuation, it would seem timely to consider the complexity of information attached to these newer forms of retirement products.

Deliverability

Just as we considered that the home, for reasons stated, should be listed as a fourth pillar of retirement, so we believe that deliverability should be added to the key considerations of adequacy, equity, sustainability and cohesion.

For the 67 per cent of Australians on a full or part Age Pension, deliverability comes via the agency of the Department of Human Services, Centrelink. While the service deliverability offered by Centrelink has never been rated highly, it is fair to say that it is currently considered to be very poor. This is in reference to the need to go online for most transactions, unreasonable wait times in Centrelink offices (perhaps due to understaffing), unreasonable wait times for the 43 million phone

callers per year, confusing documentation and, most recently, the outsourced system of overpayment collection, commonly known as robo-debt.
Any discussion of one of the main pillars of retirement should necessarily include how Age Pension eligibility is assessed, how it is updated, how it is delivered and how easy it is for the 2.5 million citizens currently receiving a full or part pension to receive timely responses to their queries.
YourLifeChoices receives and answers, free of charge, approximately 600 questions on different aspects of the Age Pension every year. It highlights the confusion felt by ordinary pension recipients and the need for the Centrelink site to better explain their entitlements.
There seems to be a real fear to reveal all financial information to Centrelink in case this is used against the individual in future times. There also seems to be pent-up frustration that Centrelink is not adhering to its core responsibility to deliver services, with processes and staff at times seeming to delay or obfuscate the delivery of services. While technological advances can be used to better deliver a wide range of services, technology can also be used as a block to deter welfare recipients from being heard and, in some cases, from being paid.

Recommendations
It is time to move beyond the politics versus policy struggle when it comes to retirement income.
As we have demonstrated, there are three very different classes of retirees, dependent on home ownership and the level of an individual's retirement savings, meaning a greater or lesser reliance on the Age Pension.
The amount paid as a full Age Pension is simply not enough for a dignified retirement.
There is a sense that we cannot 'afford' a higher pension payment, yet we do not seem to seriously question the strong tax advantages given to those with high super balances.
There has been a very real shift of retirement risk onto the shoulders of individuals who are at the mercy of movements in housing and equities markets, so the system needs to ensure they have clear guidelines for long-term planning.
This means that governments need to step up in the wake of the failure of the financial services sector to deliver reliable advice and to provide more independent, adequate and affordable support for the millions of Australians who will be planning and entering retirement over the next decades.
Top seven

- Increase base rate of the full Age Pension to an amount that better aligns with the affordability of retirement.
- Increase the rate of rental supplement to a more realistic amount for those under housing stress.
- Reduce the penalty for earning income – so consider removing the income test attached to the Age Pension.
- Encourage a higher mature adult workplace participation.
- Consider capping the number of legislative changes to retirement income or to grandfather all legislative changes to support longer-term planning
- Review the 2017 changes to the taper rate to encourage people to save and self-fund.
- Review the role and efficacy of Centrelink as the delivery agency for the Age Pension.

Finally, we need to honour the sentiments of the legislators who introduced the Age Pension in Parliament in 1908. When it became law, it was commended with the following words: "… it removes the idea of old-age pensions from any suggestion of a charitable allowance. An old man, who has done his duty as a citizen for 25 years (is) as much entitled to a pension as a commander-in-chief or a chief justice."
The pension was a reward for service. It should still be considered in this light. It is not a handout.

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YourLifeChoices
Simplifying retirement

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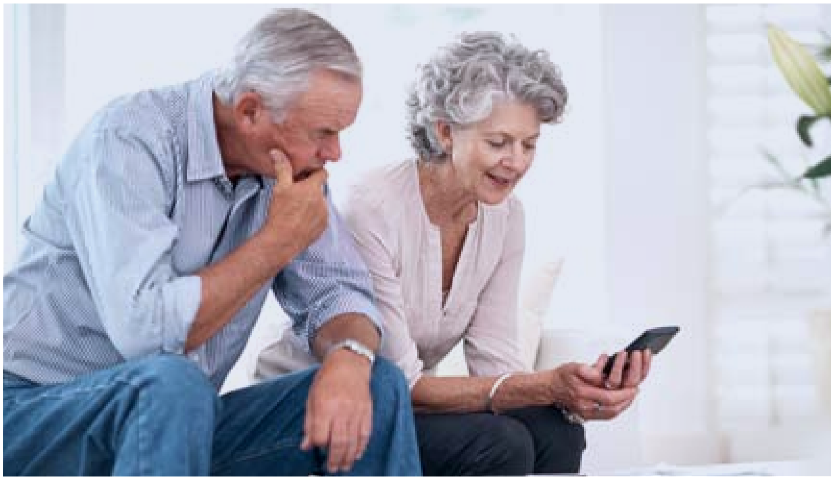

Which retirement 'tribe' do you belong to? And how does your spending compare?

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Simplifying retirement

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Why are we doing this?

Life in retirement can be extremely financially challenging – downright luxurious. It all comes down to your retirement tribe.

Of the more than three million Australian retirees living on a fixed income, a growing proportion is finding it increasingly difficult to make ends meet. Yet their plight is rarely discussed, let alone addressed.

So why are these people seemingly invisible in the eyes of policy makers?

For too long the ASFA Retirement Living Standard, categorising life in retirement as 'comfortable' or 'modest', has been accepted as a sufficient description of retirement costs. But **YourLifeChoices** and The Australia Institute (TAI) have long suspected that 'comfortable' was actually better described as 'very well off' and 'modest' often really meant poverty.

With 3.5 million retirees and another four million people, currently aged 45 or over, who are due to retire over the next 20 years, retirement affordability should be one of the hottest policy topics in Canberra.

Yet apart from ongoing cuts to access to the Age Pension and fiddling around the edges of superannuation rules, there has been little real debate about the coming perfect storm. This storm consists of an ageing population, underfunded for retirement, carrying more debt, expected to shoulder all the risk of their retirement income, with virtually no government support and extremely low trust in industry advisers.

As Matt Grudnoff at TAI – our partner in this *Retirement Affordability Index*™ – has noted, "… we have long suspected that a group of people in retirement are not doing very well at all, in fact they are living in poverty."

The corollary of this is that another 'retirement tribe' is doing extremely well. And unless we reject the 'one-size-fits-all' descriptions of retirement income and look at the actual spending of the different types of retirement households, we will continue to assume life in retirement only varies between the 'comfortable' or 'modest', rather than ranging from the luxurious to the downright penurious.

Extensive research was required in order to discern the six more accurate retirement tribes (more fully explained on pages six and seven), and for this our deep thanks go to Matt and his colleagues at TAI.

First up, we required special household expenditure data from the Australian Bureau of Statistics (ABS) to segment the population into six categories according to their home ownership, relationship status and form of income. Next the Consumer Price Index (CPI) across 12 different categories of expenditure was applied, showing how prices have risen much faster than CPI for retirement renters and at a slower rate for retired homeowners.

Blind Freddie can see that this situation is likely to be exacerbated as rental prices increase under pressure from the overheated property market.

> *"…retirement affordability should be one of the hottest policy topics in Canberra… [yet] there has been little real debate about the coming perfect storm."*

Additionally, **YourLifeChoices** conducted a survey of its 250,000 members to ask about their experience of retirement affordability. This uncovered a lot of angst and the most striking responses are shown in an infographic on page five.

So we hope that the quarterly publication of this *Retirement Affordability Index*™ will achieve two main aims. Firstly, to encourage more realistic research-based debate on the policy aspects of retirement income and affordability, and to prompt deeper questions about whether the current rules favour all.

And secondly, to help those individual **YourLifeChoices** members who are currently trying to navigate the confusion of changing rules and regulations, fearing that they 'don't know what they don't know', about retirement income. So we have provided an accurate and detailed table that shares the actual amounts your particular 'tribe' spends, item by item, as well as a handy table in which to record your own expenditure and to see how you compare. ■

The Australia Institute is an independent Canberra-based think tank. We conduct original research that contributes to a more just, sustainable and peaceful society. Our research covers a broad range of economic, social, transparency and environmental issues in order to inform public debate and bring greater accountability to the democratic process.

What you told us

In February this year **YourLifeChoices** surveyed our membership in order to learn more about the very real experiences of managing life on a fixed retirement income. We were delighted to receive 6,194 responses to the 32 questions, so thank you for such significant feedback. The information received has raised our awareness of just how tough retirement is for some Australians. Here are some top level responses to our questions:

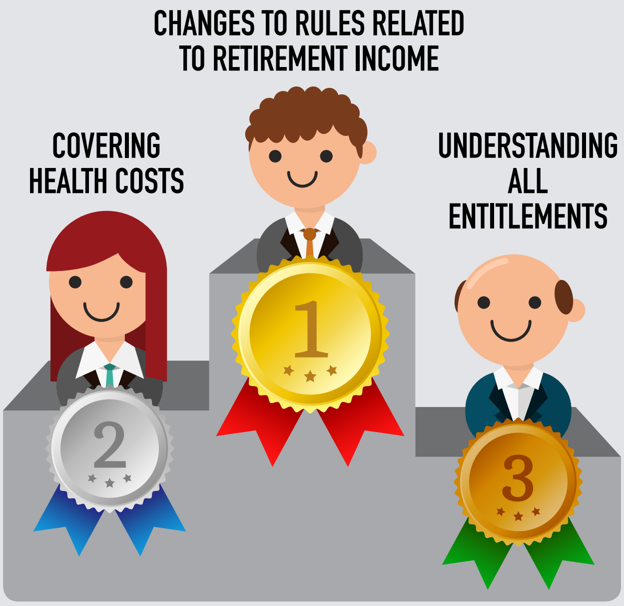
Do you run out of money?

Q 14. If on a full or part Age Pension, do you ever find yourself in the days leading up to a pension payment without any money?

Yes – occasionally
Yes – rarely
Yes
= 56%

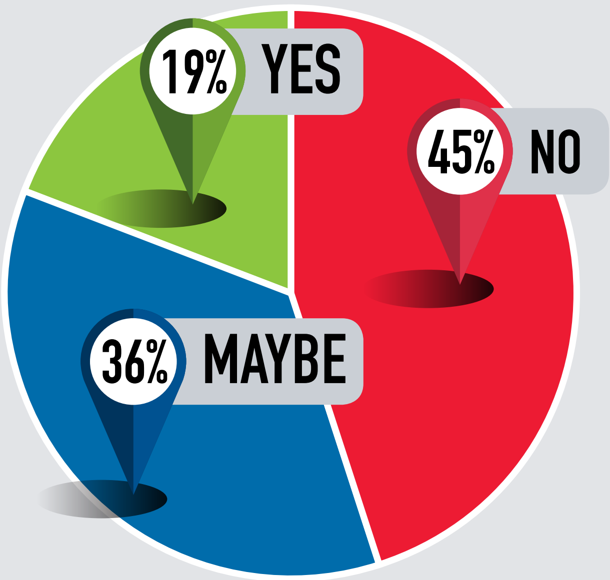
What challenges you the most?

Q 35. Which aspects of retirement affordability do you find the most challenging?



Will your savings last?

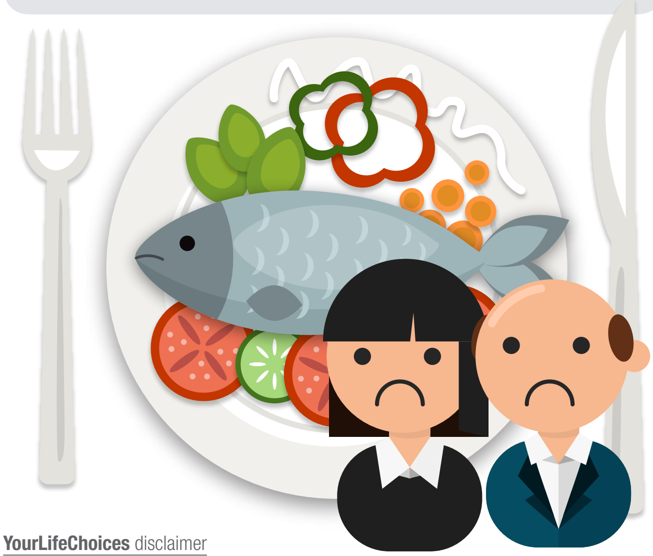
Q 25. Do you believe that your savings will provide an income to the end of your life?



No longer dining out

Q 36. How often can you afford to eat out?

28% NEVER



YourLifeChoices disclaimer

Which retirement tribe are you?

For far too long the many years in the life stage known as retirement has been treated as a 'dead-end' and the people who are in retirement as a big, beige homogenous blob, who demand a one-size-fits-all solution.

Having written and published content for and about retirees for the past 17 years, the team at **YourLifeChoices** has become exceedingly frustrated by the inaccuracies inherent in this broad brush approach, particularly when related to projections for retirement income. The glaring omission to date has been the assumption that all retirees live in a home with no mortgage.

In partnership with TAI, the following retirement tribes have been delineated by three separate criteria:

- main source or income is either from private investments or government pension
- homeowner or renter
- couple or single household.

This has allowed us to create six separate tribes that demonstrate the very different experience of retirement from a financial perspective. Which tribe matches your situation?

Couple homeowners with private income

Annual expenditure
$71,535

This annual expenditure is double three of the other categories, 3.5 times the single Age Pension homeowner and quadruple that of the single Age Pension renter.

This is the good life. To achieve this level of income, on current cash rates of 2.5% (i.e. not from investment in the sharemarket or property), such a couple would need $2,861,400 in savings.

- Retirees in this tribe tend to spend a lot more on energy than their counterparts – suggesting that heating and air-conditioning are less of a problem than in more frugal, pension households.
- Weekly expenditure on food, which includes dining out, was high ($202) – almost double that of couples on an Age Pension who rent. Similarly, $31.57 per week on clothing and footwear is dramatically more than the $6.54 that a single renter on a pension can afford.
- Recreation costs, including entertainment and holidays, are 20% of expenditure, compared to 14% for couples and self-funded singles, and just 7% for single renters on a pension.

Couple homeowners on Age Pension

Annual expenditure
$35,644

A maximum couples pension, including supplements paid at the time of ABS data 2009-10 was $26,461 per annum (many couples in this category may be on a part-pension so private income will make up the shortfall).

- As with other homeowner tribes, the housing expenditure of 11% is relatively low.
- Food was the highest percentage of expenditure (21%), even higher than for self-funded couples (15%).
- Clothing and footwear spend was about half that of both couple and singles who are privately funded, but three times that of single renters.
- The percentage of spend on transport was high (17%) compared with other categories, again in particular when compared with renting singles.

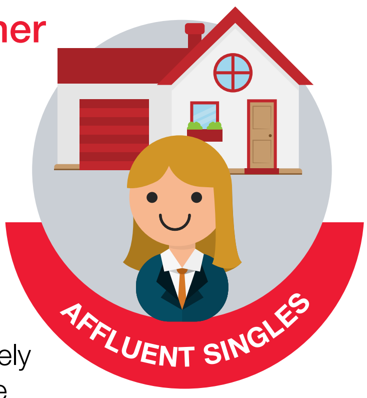
Couple who rent on Age Pension

Annual expenditure
$34,204

The maximum couples Age Pension 2009-10 was $26,461

- This tribe spends the lowest percentage of income on health – a mere 4%. Again it raises the question if renters are missing out on important preventative measures because of financial hardship.
- Alcohol and tobacco was a high spend category for this tribe (6%) compared with all other groups, in particular, single self-funded homeowners who only allocated 1% of their money in this way.
- Discretionary spending in the household services and operation and furnishing and equipment categories was the same percentage of overall expenditure, but about half the dollar amount of those who are privately funded homeowners.

Single homeowner with private income



Annual expenditure
$35,383 – if in cash, earning 2.5%, then $1,415,320 required in savings.

This expenditure is closely aligned to that of couple homeowners on a pension, and couples who are renting, so again it could be seen to be a very comfortable category in the retirement affordability stakes.

- This tribe spent the largest proportion of their income on clothing and footwear at 5%, compared to 2-3% for all other categories.
- As with all other categories except renters, health services are a higher percentage of spend.
- Leisure and lifestyle spends are also relatively high, as housing as a percentage makes up just 10% of income.

Single homeowner on Age Pension

Annual expenditure
$20,234

The maximum single Age Pension 2009-10 was $17,554

- Single pension homeowners spent the highest proportion (5%) on energy relative to other tribes. This again could be because they can better afford extra heating, cooling and lighting than those paying high rents.
- This tribe spent the least on alcohol and tobacco – a mere 1% of their expenses.

Single renter on Age Pension

Annual expenditure
$18,712

The maximum single Age Pension 2009-10 was $17,554

- A whopping 29% of a single pension renter's income is devoted to housing, compared with 22% for renting pensioner couples and just 8-15% for those in categories of home ownership.
- It is unlikely such a retiree could afford current city or inner suburban rents in cities such as Melbourne, Sydney or Brisbane, yet this may be where they have resided most of their lives and so they may now be forced to relocate due to the current overheated housing market.
- As presented in the graph on page 10, the cost of life in retirement is rising more rapidly than the CPI, perhaps largely due to rental increases.
- With just 6% of income funding medical care and health services, is this tribe going without doctor visits or tests as the out of pocket costs are too high to afford?
- Just 7% of income is devoted to recreation – one third of what is spent by the self-funded couples and almost half that of all other tribes. ■

**How these retirement tribes were finalised*

Two potential tribes have not been included. These are those whose main source of income is private who rent for both singles and couples. This has been done because the number of people in this category is very small making the results of their spending patterns unreliable. Most people with sufficient wealth so that most of their income comes from private investments own their own home. The retirement income system incentivises this by excluding a person's primary residence from the Age Pension asset test.

Reference for 2009/2010 Age Pension rates.

YourLifeChoices disclaimer

What the research really means

When the data is analysed, it's clear who is worst off financially in retirement. *Matt Grudnoff*, from The Australia Institute, looks beyond the figures to see who is struggling the most.

Australia's retirement income system is flawed. It is failing many retirees and, as a result, poverty in retirement is a growing problem. It is not that all retired people are struggling, but a significant proportion is finding it increasingly difficult to make ends meet. The two main components of the retirement income system, the Age Pension and superannuation, are taking the inequalities throughout people's lives and magnifying them in retirement.

Among OECD nations, Australia has the second highest rates of poverty in retirement. Despite this sobering fact, this issue has not received a lot of public attention. Successive governments have largely ignored the problem and this is making it worse, since attempts to reduce the budget deficit have resulted in cuts to the Age Pension.

YourLifeChoices and The Australia Institute have teamed up to take a closer look at how different groups of retirees are coping financially in retirement. There is a serious lack of information regarding this issue and this has contributed to it being overlooked in the public policy arena.

Rather than look at all retired people as one homogenous group, we have broken them up into lots of different 'tribes' to get a more nuanced view of how they are coping financially. This allows us to look at the inequality that is inherent in the retirement income system. The study, released as the inaugural *Retirement Affordability Index*™ on page 12, allows a more detailed examination of what different retirement tribes are spending their money on and how the cost of living is affecting people differently.

We hope that this important work will help people better understand who is doing well in retirement and who is struggling. Once we understand the different financial pressures in retirement, we're better able to suggest government policy to help those in need. We can't improve the retirement income system unless we understand how it is working for some groups and how it is failing others.

In this first edition of the research we will look at six different tribes. We have split retired people (i.e. those aged 54 and up, living in households where no one is in the workforce) in three ways.

The first way we have split them is into two groups by their main source of income. The first group is those retirees who derive most of their income from government pensions and allowances, including the Age Pension. The second group is those who derive most of their income from private investments, including superannuation. So if a couple has some superannuation earnings but gets more from the Age Pension then they would be categorised as getting their main source of income from pensions and allowances. Similarly, those who get most of their income from investments but still draw a part pension are classified as getting their main source of income from private sources.

> *Spending three times as much on housing means that retired renters have to cut back in other areas.*

The second way we split the groups is into couples and single households. These groups have different spending patterns so it is important to look at them separately.

Finally we also split our groups by their housing tenure. There are those who own their own home (either outright or with a mortgage) and those who rent, either privately or publicly.

This would give us eight groups of retirees but we have removed two of the groups because they represent such a small portion of the population and we cannot obtain reliable data for them. The two groups excluded are couples and singles who rent and get most of their income from private sources. Those who have significant investments including superannuation almost always own their own home. Given that the main residence is exempt from the pension asset test, this is a further encouragement for retirees with significant wealth to invest in their own home. The result is that there are few retirees with significant investment assets who choose to rent. This is not to say that there are no retirees in this category, only that the numbers are so small that we can't obtain reliable figures on them.

This leaves us with six tribes. They are:

- couples who earn most of their income from the pension and own their own home
- singles who earn most of their income from the pension and own their own home
- couples who earn most of the income from the pension and rent
- singles who earn most of their income from the pension and rent
- couples who earn most of their income from private investments and own their own home
- singles who earns most of their income from private investments and own their own home.

The data that we're using to look at these different tribes comes from the Australian Bureau of Statistics (ABS) Household Expenditure Survey. This survey gathers a representative sample of all Australians and looks at what they spend their money on. It then places this spending into 12 broad expenditure categories. From this we can see what each tribe spends on each category. This is set out as both a proportion of their incomes and in dollar terms.

The first major difference that we observe is that those who rent spend substantially more of their income on housing. Most retirees who own their own home do so outright and so spending on

housing is mainly on maintenance and various government taxes such as rates. While those who do not own their own home are forced to pay considerable amounts of their income towards rent.

This means that those who have to rent in retirement face much tougher decisions on spending. Retired renters spend on average almost 30 per cent of their income on housing, while retired owners only spend about 10 per cent.

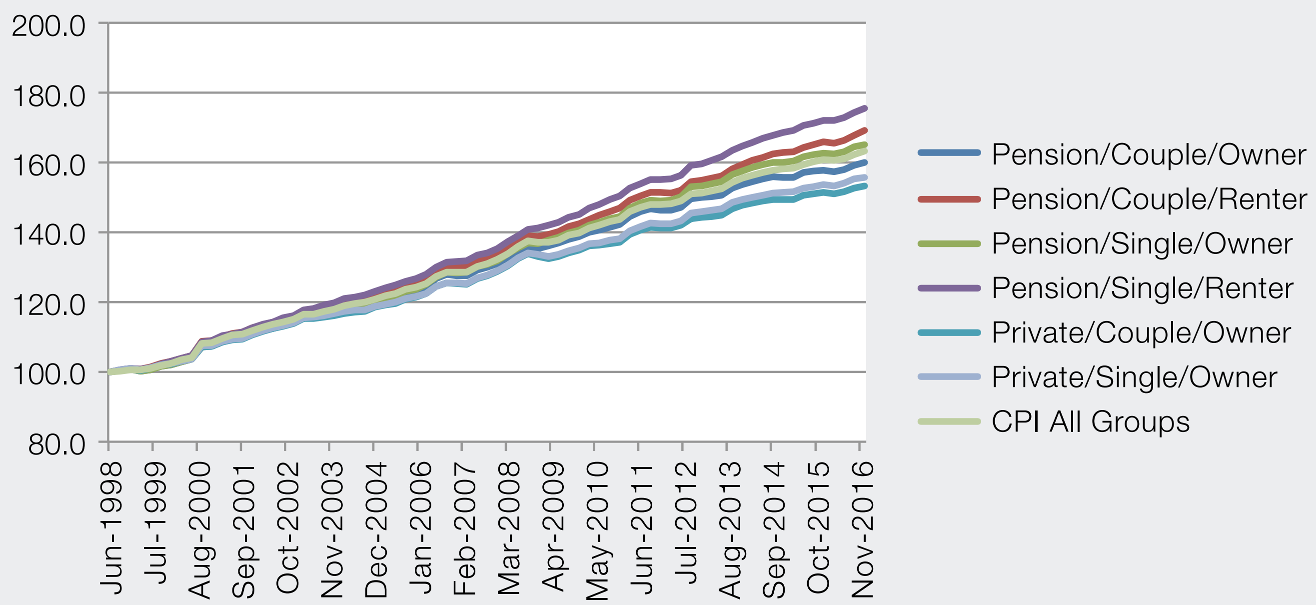
Spending three times as much on housing means that retired renters have to cut back in other areas. The two biggest areas are recreation and transport (which includes maintaining a car). The average retired homeowner spends $200 a week on recreation and transport while the average retired renter spends only $80 per week.

This means that retired renters have significantly less opportunity to interact with other people and get out of the house. Retirement for some people can be a lonely and isolating time. Being a renter in retirement can only increase the chance of this as these individuals are more likely to be stuck at home owing to their reduced financial circumstances.

The other area that retired renters cut back on is healthcare. While the average retired homeowner spends $55 a week on healthcare, the average retired renter spends less than half that at $25 per week. It is very concerning if retired renters are unable to afford medication or are putting off seeing health professionals because they have to expend almost a third of their income on housing.

While renters suffer significantly higher housing costs they also face higher cost of living increases. In the figure below we compare price increases for our six different tribes with the increase in the consumer price index (CPI) since 1998.

The reason that the cost of living for renters is rising so fast is because they spend a considerable proportion of their incomes on rent and rents are rising considerably faster than the CPI. Private income owners spend the least, as a proportion of their incomes, on housing. On the other hand they do spend the largest part of their incomes on recreation which has seen only slow growth in prices. Those who mainly rely on the Age Pension and own their own home spend a lot less on housing than renters but more (as a proportion of their incomes) on housing than those earning most of their income from investments. They also spend a larger part of their incomes on food which has seen stronger price increases.



The two renting tribes faced higher price increases than the CPI. Those owners who get most of their income from private sources faced much lower cost of living increases than the CPI. Pensioners who own their own home faced cost of living increases that were very similar to the CPI. This means that while the official inflation rate over the past 18 years averaged about 2.5 per cent per annum, the prices of the goods and services that renters buy are rising faster than 2.5 per cent. As opposed to the goods and services that private income owners buy that are rising more slowly than 2.5 per cent. Pensioners who own their own home are seeing price increases roughly in line with the CPI average of 2.5 per cent.

What this means is that renters, who are struggling the most financially in retirement, are also the ones who are facing the largest increases in prices. This means that over time they will see their purchasing power (the amount of goods and services that they can buy) shrink compared with that of homeowners. Combined with a growing housing affordability problem, the inequality amongst retirees can be expected to increase rather than diminish. ■

The figures come from the Australian Bureau of Statistics (ABS) 6530.0 - Household Expenditure Survey, Australia: Summary of Results, 2009-10. The data was obtained by a special data request which included the spending patterns of all households aged 54 and up who had no member of the household in the labour force (our definition of retired). The data was further segmented by main source of income (private investment income versus pensions and allowance), household type (single versus couple) and housing tenure (own including outright and with a mortgage versus renting and other tenure types).

Lock in the costs and save

Making arrangements for your funeral can save your family, both emotionally and financially, when it matters most.

It isn't a topic that many of us are comfortable discussing; arrangements for a funeral, and what to do after you die. The fact that it is so uncomfortable and awkward often means that it goes undiscussed and this may leave grieving family members guessing how you would want to be remembered. You wouldn't let someone take an educated guess at how you wanted your wedding to play out, and it shouldn't be any different with the ultimate celebration of your life.

This is one of the major advantages of locking in a pre-paid funeral, ensuring that you get the funeral you want and making sure you are remembered your way. Does your family know if you want to be buried or cremated? Will there be an open or closed casket? Confusion and disagreements are common between stressed family members at the time of a loved one's passing and having a plan is the best way to avoid this. Not only does this take the pressure off family members at an already stressful time, it can also give *you* peace of mind that all your affairs are in order without leaving an added burden on your family.

It isn't just the peace of mind that comes with knowing the celebration of your life will happen your way, it is also a sensible financial decision that could save your family thousands of dollars.

A prepaid funeral allows you to make all the plans for your funeral and pay at the rate quoted on the day. Prices are protected and your family will not have to find thousands of dollars in a hurry when you die. You may leave behind a substantial amount of money to family members, but that doesn't mean they will be able to access it in time for your funeral.

Anyone who has found themselves organising a funeral for a loved one may remember that uncomfortable feeling of looking at caskets and trying to strike a balance between what they can afford and not wanting to appear too stingy. Put simply, this isn't a situation in which you want to leave your loved ones. You are much more likely to choose a more simple and cost-effective design than grieving family members, who may want to ensure you have the 'best', whatever that means.

Of course, not everyone has the money sitting around to pay for a funeral before the event. This is why Guardian Plan, Australia's leading plan, works closely with various funeral directors throughout Australia and offers payment plans to help you spread the cost. For added peace of mind, should you move interstate, Guardian Plan can help you transfer your plan to another funeral director. ■

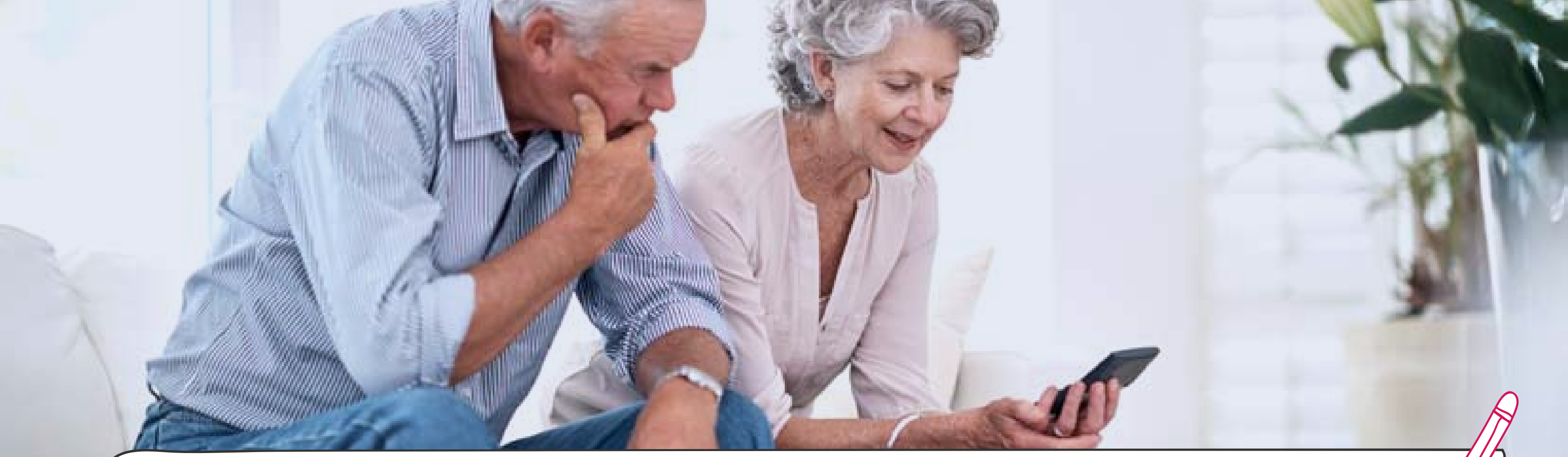
More: guardianplan.com.au

YourLifeChoices *Retirement Affordability Index™ March 2017*

In conjunction with TAI, **YourLifeChoices** is publishing the inaugural *Retirement Affordability Index™*, offering for the first time a true assessment of the real costs of living in retirement. We examine the six retirement 'tribes'; those who live as a couple or single, with private income (self-funded) or on a pension and their housing situation. So here are the costs, in a weekly, monthly and annual format, for you to review, compare and keep track of your own household expenditure. This information will be updated on a quarterly basis so we can keep you informed and better able to manage your retirement income.

Weekly expenditure for retirees aged 54+

Expenditure items	Couple homeowners with private income	Couple homeowners on Age Pension	Couple who rent on Age Pension	Single homeowner with private income	Single homeowner on Age Pension	Single renter on Age Pension
Housing Rent, interest, home repairs and maintenance & body corporate fees	106.67	75.25	146.15	65.51	60.12	102.41
As percentage of expenditure	8%	11%	22%	10%	16%	29%
Domestic fuel & power Electricity, gas & oil	33.16	26.36	22.88	22.18	19.55	16.15
As percentage of expenditure	2%	4%	4%	3%	5%	5%
Food & non-alcoholic beverages Includes meals in restaurants	202.65	146.33	119.40	102.24	76.47	63.70
As percentage of expenditure	15%	21%	18%	15%	20%	18%
Alcoholic beverages & tobacco products Alcohol consumed at licensed premises	31.15	23.75	41.26	9.91	11.03	13.46
As percentage of expenditure	2%	4%	6%	1%	3%	4%
Clothing and footwear Dry cleaning, repairs & alterations	31.57	17.30	16.96	33.03	10.90	6.54
As percentage of expenditure	2%	3%	3%	5%	3%	2%
Household furnishings & equipment Outdoor furniture, floor and window coverings, linen and bedding, appliances, glassware, tableware and cutlery, tools & mobile phones	78.91	42.24	30.42	44.15	19.88	13.96
As percentage of expenditure	6%	6%	5%	7%	5%	4%
Household services & operation Cleaning and garden products, phone charges (including mobile), pest control & home cleaning services	72.56	48.37	38.75	42.77	33.76	38.09
As percentage of expenditure	5%	7%	6%	6%	9%	11%
Medical & health care Health insurance, doctor and dental fees, medicines and pharmaceutical products, prescriptions & hospital and nursing home charges	104.94	54.78	27.33	48.53	35.23	23.14
As percentage of expenditure	8%	8%	4%	7%	9%	6%
Transport Purchase, maintenance and insurance of vehicles, fuel & public transport fares	207.72	113.17	89.47	70.01	45.35	23.48
As percentage of expenditure	15%	17%	14%	10%	12%	7%
Recreation AV equipment including TVs and pay TV, books, newspapers and magazines, camping and fishing equipment, sports equipment, internet charges, holidays & animal expenses	272.16	92.42	92.99	97.46	47.42	25.63
As percentage of expenditure	20%	14%	14%	14%	12%	7%
Personal care Toiletries, cosmetics & hairdressing	26.24	14.81	12.06	14.51	9.76	9.56
As percentage of expenditure	2%	2%	2%	2%	3%	3%
Miscellaneous goods & services Stationery, watches and jewellery, interest payments on credit cards and all loans (excluding home loans), education, rates and charges on investment properties, accountant and tax fees & cash gifts	204.25	28.84	18.30	128.32	18.60	23.04
As percentage of expenditure	15%	4%	3%	19%	5%	6%
Total weekly expenditure	**$1,371.96**	**$683.62**	**$655.99**	**$678.61**	**$388.07**	**$359.15**
Total monthly expenditure	**$5,961.16**	**$2,970.33**	**$2,842.62**	**$2,940.64**	**$1,681.64**	**$1,556.32**
Total annual expenditure	**$71,533.99**	**$35,643.95**	**$34,111.48**	**$35,287.72**	**$20,179.64**	**$18,675.80**



How does *your* spending compare?

Expenditure items	Couple homeowners with private income	Couple homeowners on Age Pension	Couple who rent on Age Pension	Single homeowner with private income	Single homeowner on Age Pension	Single renter on Age Pension
Housing Rent, interest, home repairs and maintenance & body corporate fees As percentage of expenditure						
Domestic fuel & power Electricity, gas & oil As percentage of expenditure						
Food & non-alcoholic beverages Includes meals in restaurants As percentage of expenditure						
Alcoholic beverages & tobacco products Alcohol consumed at licensed premises As percentage of expenditure						
Clothing and footwear Dry cleaning, repairs & alterations As percentage of expenditure						
Household furnishings & equipment Outdoor furniture, floor and window coverings, linen and bedding, appliances, glassware, tableware and cutlery, tools & mobile phones As percentage of expenditure						
Household services & operation Cleaning and garden products, phone charges (including mobile), pest control & home cleaning services As percentage of expenditure						
Medical & health care Health insurance, doctor and dental fees, medicines and pharmaceutical products, prescriptions & hospital and nursing home charges As percentage of expenditure						
Transport Purchase, maintenance and insurance of vehicles, fuel & public transport fares As percentage of expenditure						
Recreation AV equipment including TVs and pay TV, books, newspapers and magazines, camping and fishing equipment, sports equipment, internet charges, holidays & animal expenses As percentage of expenditure						
Personal care Toiletries, cosmetics & hairdressing As percentage of expenditure						
Miscellaneous goods & services Stationery, watches and jewellery, interest payments on credit cards and all loans (excluding home loans), education, rates and charges on investment properties, accountant and tax fees & cash gifts As percentage of expenditure						
Total weekly expenditure						
Total monthly expenditure						
Total annual expenditure						

The value of a concession card

Eligibility for any of the following cards can make a huge difference to your cost of living.

While as many as 65 per cent of older Australians rely on an Age Pension or other government payment as their main source of income, it's often the associated concession card that holds the key to a more affordable retirement.

A concession card gives you access to savings on prescription medicines, health services, car registration, public transport, rates and utility bills, to name just a few. Many of these concessions are offered by state governments, local councils and private businesses, so they do tend to vary depending on where you live.

1 Pensioner Concession Card (PCC)

Pensioner Concession Cards are issued by Centrelink to those receiving an Age Pension, Disability Support Pension or Carer Payment. You may also be eligible for a Pensioner Concession Card if you are over 60 years of age and have been receiving any of the following payments for at least nine months:

- Newstart Allowance
- Partner Allowance
- Widow Allowance.
- Sickness Allowance
- Special Benefit

2 Health Care Card (HCC)

If you do not qualify for a Pensioner Concession Card, you may be entitled to a Health Care Card if you are below Age Pension age and receive one of the following payments:

- Newstart Allowance
- Partner Allowance
- Widow Allowance.
- Mobility Allowance
- Special Benefit

3 Commonwealth Seniors Health Card (CSHC)

Self-funded retirees who are of Age Pension age but do not qualify for the Age Pension, may be eligible for a Commonwealth Seniors Health Card if their annual adjusted taxable income is below the following thresholds:

- $52,796 (singles)
- $84,472 (couples combined)
- $105,592 (couples separated due to ill-health).

4 Low Income Health Care Card

For those who do not qualify for any Centrelink benefits, it may be possible to receive a Low Income Health Care Card if your income is below the required thresholds.

To qualify for a Low Income Health Care Card, your income must be below the following thresholds for the eight weeks prior to making a claim:

- $543 per week or $4,344 over eight week period (singles)
- $939 per week or $7,512 over eight week period (couple).

Once you have received the card, you will be required to undergo a review every six months to assess your continued eligibility.

Seniors Card

As well as concession cards that are linked to government payments, you may also be eligible for a Seniors Card. Issued by state and territory governments, Seniors Cards are available to those aged 60 and over who no longer work full-time. However, eligibility varies depending on the state or territory in which you reside, as do the concessions available to you, so it's worth checking if you qualify. The main benefit is that Seniors Card holders are entitled to travel concessions in their home state or territory, as well as interstate.

Find out more and locate your state or territory Seniors Card office here. ■

YourLifeChoices disclaimer

Government update

Here are the Centrelink changes that you need to know about now.

Increase in Age Pension age

The eligibility age for the Age Pension will start to increase from 1 July 2017, until it reaches 67 by 2023. A breakdown of the increase is as follows:

Date	Eligibility age
1 July 2017	65.5 years
1 July 2019	66 years
1 July 2021	66.5 years
1 July 2023	67 years

For more information, visit HumanServices.gov.au

New pension rates

The biannual indexation of pension payment rates occurred on 20 March 2017 and has resulted in a fortnightly increase of $10.40 for singles and $7.80 for each member of a couple.

For full details of new payment rates, visit YourLifeChoices.com.au

New income and asset thresholds for part Age Pensions

As well as increasing pension payments, indexation has also occurred for the income and asset thresholds that apply to part Age Pensions. This may mean that those who have narrowly missed out on a part Age Pension, or lost their part Age Pension after the 1 January 2017 asset changes, may now qualify for the payment.

For full details of income and assets thresholds, visit YourLifeChoices.com.au

Changes to Energy Supplement eligibility

Pensioners who apply for the Commonwealth Seniors Health Card (CSHC) may no longer receive the Energy Supplement with changes having come into effect on 20 March 2017.

If you…	Your Energy Supplement…
claimed a CSHC from 20 September 2016, within six weeks of your income support payment stopping	will continue to be paid unless there's a period where you are not eligible for a CSHC.
claimed a CSHC from 20 September 2016, more than six weeks after your income support payment stopped	will have stopped on 20 March 2017.
claim a CSHC after 20 March 2017	will not be paid, unless you're receiving a CSHC as a replacement for an income support payment that stopped less than six weeks before claiming (e.g. as a result of losing the Age Pension due to asset threshold changes).

Online claiming for Carer Payment and Carer Allowance

You can now apply online for a Carer Payment or Carer Allowance. If you're already a Centrelink customer, all you have to do is provide any new details, and your previous information will be transferred across to your new claim. You can also monitor the progress of your claim, via Claim Tracker.

You can apply via mygov.gov.au ■

YourLifeChoices
Simplifying retirement

ISSUE 12
DECEMBER 2019

Retirement Affordability Index™

A BALANCING ACT

Spend too many of your retirement dollars and you'll run out of money, spend too few and you'll live more frugally than necessary. Here's how to get the balance right.

challenger

www.yourlifechoices.com.au


Little things add up in retirement.
Are you confident you can pay for them?

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What we wish we knew about retirement

There seem to be many questions without answers for retirees and pre-retirees, writes *Janelle Ward*.

How much should we have? How long will we live? How much can we spend? Retirement is nothing if not tricky in many areas, but especially in the spending category. In this edition of the *Retirement Affordability Index*, we go searching for answers. The aim is to build confidence. But for most retirees and those approaching retirement, confidence will come only with a strong individual belief that we know what we're doing.

Confusing

Pension experts from around the world recently gathered to critique Australia's retirement income system and concluded that "people are utterly lost going into retirement".

The International Centre for Pension Management, a research-based organisation with 42 global partners, says that Australia needs to realise its pension system is a giant complex bank account that is leaving its investors – Australia's retirees and workers – confused and disempowered.

"This is our main message. Pretending people can choose in such a complex situation is fake, even misleading," says economic psychologist and group chair Andre Snellen.

"It's not the technicalities that are the problem. It's wrapping your head around going from accumulation to decumulation, from a returns-based system to a replacement rate, from savings to an income stream."

Underestimating

The Actuaries Institute says that Australians are severely underestimating how much money they'll need for how long they will live and that all longevity tables must be reviewed.

Institute research found that new retirees should be basing their sums on living to 100 rather than using current life expectancy tables that say women, on average, will live to 87.

"A healthy, well-educated female entering retirement today, who had an affluent career and enjoys a good quality of housing, is just as likely to live beyond age 100 as she is to die before age 80," the institute says.

"The tables have a material impact on the way retirement income strategies and products are evaluated, and currently underestimate longevity."

The institute claims that a couple – a male aged 65 and a female aged 62 – would need a plan that lasts until the male is 100, so that they can be 80 per cent sure their financial plan meets their potential lifespan.

Actuary Jim Hennington, author of the research note and a member of the Actuaries Institute retirement incomes working group, says: "Everyone wants to make sure their savings last.

"Fifty per cent of us live longer than our life expectancy. Some live all the way to age 105 and beyond."

Going it alone

Meanwhile, a majority of retired Australians are independently managing their retirement finances and many are not even involving their partners, according to global asset management firm Franklin Templeton.

The research shows that while nearly half of Australian retirees believe a financial adviser is important to their retirement planning and in generating income in retirement, only 24 per cent are working with an adviser. And trust remains an issue in the wake of the damning findings of the financial services royal commission.

This 'flying solo' approach could come at a cost, said Franklin Templeton's head of retail in Australia, Manuel Damianakis.

"Eighty-one per cent of those retired have never developed a written retirement income plan and only 43 per cent told us they have a strategy to generate income for retirement that could last 30 years or more," he said.

But **YourLifeChoices** is here to help with this edition, 'A balancing act'. ■

Advice from those who are there

In **YourLifeChoices'** *2019 Ensuring Financial Security in Retirement Survey*, we asked members to share what they believed was the most important ingredient for a confident retirement. These are some of your responses.

"Simple: Ensure incomings are higher than outgoings."

"Get planning and advice from at least three financial advisers."

"Income from investments, annuities and pensions backed up by a fair Age Pension."

"Get good advice and planning well in advance of retirement."

"Try to ensure you have income on top of the Age Pension, as the pension is minimal."

"Enjoy life and hope that you have enough to see you through!"

"Learn to budget well, while still enjoying some of the good things in life."

"Own your home."

"The most important ingredient for financial security will be a mix of shares, super plus investment property as it is difficult to predict how the economy will go and investment needs to be varied rather than focusing on one particular area."

"Keep well, active and engaged in life."

"Don't live beyond your means. If you can't afford it, don't have it."

"Look where savings can be made and regularly review your financial situation."

"Take out an annuity policy when you are young and, if possible, increase the premiums as you get increases in your salary."

"Keep as much money as you can in superannuation and keep property for as long as possible."

"Thrift, understand where your money is going and why!"

"Budget planning is the key. It means you develop and maintain a good view of your finances."

"The government must leave the rules unchanged so we can budget satisfactorily for retirement."

"Good health then you don't need to spend a lot of money on that."

What you told us about reti

YourLifeChoices members generously participate in numerous surveys each year. These yield valuable information about the state of retirement – the pressure points, the fears, the true essentials for a comfortable retirement. We share the following information from three surveys conducted in 2019 – *Retirement Income Review Survey, Ensuring Financial Security in Retirement Survey* and *Retirement Matters Survey* – to deliver a better understanding of the real retirement landscape. ■

ABOUT YOU

Age

45-54 2%
55-64 20%
65-74 58%
75-plus 20%

To which retirement tribe do you belong?

Constrained Couples and Singles 50%

Affluent Couples and Singles 39%

Cash-Strapped Couples and Singles 11%

SPENDING

What is your main source of retirement income?

Age Pension 44%
Government benefit (e.g. carer) 1%
Superannuation 44%
Private savings 6%
Other 5%

Is/will this income provide you with a dignified retirement?

Yes 31%
No 37%
Unsure 32%

*If retired, what is your spending now compared with just before retirement?

Higher 7%
Lower 59%
About the same 34%

*How confident are you that your income will allow you to maintain your current lifestyle for as long as you live?

Very 12%
Somewhat 33%
Not very 26%
Not at all 12%
Neutral 17%

**What strategies do you use to make your money go further? (Multiple selections)

Fewer or no holidays 56%
Don't use heating or cooling 16%
Don't eat out or buy takeaway food 40%
Shop only for specials or at discount stores 40%
Don't go to the dentist 19%
Go only to doctors who bulk bill 52%

rement affordability

YOUR ATTITUDES AND CONCERNS

*Top five financial concerns (multiple selections):

Unable to afford long-term care expenses 42%
Unable to live comfortably through retirement 42%
Income from savings not keeping up with living costs 39%
Outliving savings 35%
Losing savings due to falls in the market 33%

**Top five biggest drains on savings:

Healthcare 22%
Housing 16%
Energy costs 13%
Recreation/entertainment 14%
Communication 11%

To what extent are current low interest rates hurting your retirement income?

Badly or very badly 58%
Not much or not much at all 42%

How important is home ownership in retirement?

Very important 87%
Important 6%
Somewhat important 3%
Not at all 4%

INCOME STREAMS AND SUPERANNUATION

Is the current Age Pension base rate ($850.40 per fortnight for singles and $641 per fortnight for each member of a couple) sufficient?

Yes 18%
No 82%

Should deeming rates be reviewed at least annually?

Yes 93%
No 7%

Are superannuation fees sufficiently transparent?

Yes 27%
No 73%

Can you easily compare funds' performances?

Yes 28%
No 72%

Are there sufficient decumulation products?

Yes 24%
No 76%

Which retirement products and/or services will you most likely consider using/or have used?

Government Pension Loans Scheme 21%
Reverse mortgage 12%
Annuity 35%
Other 32%

Sources: *Retirement Income Review Survey* (4869 responses), **Ensuring Financial Security in Retirement* (3397 respondents), ***Retirement Matters Survey* (5100 respondents).

Drought causes jump in food costs

Price rises in the September quarter were smaller than in the June quarter with all tribes experiencing similar increases but for different reasons.

The Affluent tribes experienced the biggest rises (0.5 per cent), driven mainly by recreation costs, while the Cash-Strapped tribes (0.4 per cent rise) were most affected by the cost of food and non-alcoholic beverages.

But it was recreation costs that had the biggest impact in the quarter. This was mainly due to international holiday, travel and accommodation costs (up 6.1 per cent) although they were largely restricted to travel to Europe and the US. These increases had the biggest effect on the Affluent tribes, who are more likely to travel internationally.

Food and non-alcoholic beverage costs had a big impact across all tribes. The drought continued to affect many foodstuffs, including meat and seafood (+1.7 per cent), dairy and related products (+2.2 per cent) and bread and cereal products (+1.3 per cent). These increases were partly offset by falls in the cost of fruit and vegetables (-2.9 per cent) as berries, citrus and tomatoes came into season.

Food price rises had the biggest impact on Cash-Strapped tribes as they spend a bigger proportion of their income on food essentials.

There were very few price falls in the quarter, with the exception of communication, mainly due to a drop in the cost of telecommunication equipment (-1.1 per cent), and transport, due to a two per cent drop in automotive fuel costs.

Matt Grudnoff,
The Australia Institute senior economist

Weekly expenditure for retirees aged 54+

	Affluent Couples	Constrained Couples	Cash-Strapped Couples	Affluent Singles	Constrained Singles	Cash-Strapped Singles
Expenditure items	Couple homeowners with private income	Couple homeowners on Age Pension	Couple who rent on Age Pension	Single homeowner with private income	Single homeowner on Age Pension	Single who rents on Age Pension
Housing	$182.07	$107.61	$203.81	$122.34	$90.29	$160.56
As a percentage of expenditure	12%	13%	29%	15%	19%	36%
Domestic fuel & power	$45.32	$34.04	$35.93	$32.78	$29.34	$24.90
As a percentage of expenditure	3%	4%	5%	4%	6%	6%
Food & non-alcoholic beverages	$240.04	$169.07	$152.87	$120.59	$84.76	$75.96
As a percentage of expenditure	16%	20%	22%	14%	18%	17%
Alcoholic beverages & tobacco products	$54.52	$27.81	$45.05	$27.47	$15.80	$21.72
As a percentage of expenditure	4%	3%	6%	3%	3%	5%
Clothing and footwear	$31.14	$17.67	$9.35	$20.71	$8.98	$7.41
As a percentage of expenditure	2%	2%	1%	2%	2%	2%
Household furnishings & equipment	$74.23	$32.21	$19.59	$40.62	$18.86	$15.04
As a percentage of expenditure	5%	4%	3%	5%	4%	3%
Household services & operation	$41.65	$29.47	$15.92	$37.58	$21.24	$11.28
As a percentage of expenditure	3%	3%	2%	4%	5%	3%
Medical & health care	$147.33	$105.01	$36.36	$84.59	$37.46	$22.17
As a percentage of expenditure	10%	12% (-1%)	5%	10%	8%	5%
Transport	$195.61	$126.98	$60.38	$103.62	$52.85	$35.64
As a percentage of expenditure	13%	15%	9%	12%	11%	8%
Communication	$35.45	$25.13	$27.19	$34.31	$17.71	$13.82
As a percentage of expenditure	2%	3%	4%	4%	4%	3%
Recreation	$299.02	$101.54	$66.02	$139.27	$52.39	$31.62
As a percentage of expenditure	20%	12%	9%	17% (+1%)	11%	7%
Education	$0.6	$0.22	$0	$0.13	$0.12	$0.01
As a percentage of expenditure	0%	0%	0%	0%	0%	0%
Personal care	$29.36	$17.82	$12.39	$18.29	$9.65	$8.55
As a percentage of expenditure	2%	2%	2%	2%	2%	2%
Miscellaneous goods & services	$89.19	$48.10	$24.05	$54.14	$26.35	$16.41
As a percentage of expenditure	6%	6%	3%	6%	6%	4%
Total weekly expenditure	**$1,465.54** +$7.53*	**$842.66** +$3.34*	**$708.91** +$3.01*	**$836.45** +$4.00*	**$465.80** +$2.04*	**$445.11** +1.85*
Total monthly expenditure	**$6,350.68** +$32.63*	**$3,651.54** +$14.49*	**$3,071.95** +$13.07*	**$3,624.60** +$17.34*	**$2,018.47** +$8.83*	**$1,928.79** +$8.01*
Total annual expenditure	**$76,208.21** +$391.65*	**$43,818.52** +$173.96*	**$36,863.36** +$156.77*	**$43,495.20** +$208.03*	**$24,221.68** +$106.05*	**$23,145.47** +$96.10*

**Percentage and dollar changes compared with June quarter figures*

Retirement tribes explained

Affluent Couples and Singles
Homeowners with private income.

Constrained Couples and Singles
Homeowners on full or part Age Pension.

Cash-Strapped Couples and Singles
Renters on Age Pension.

How does *your* spending compare?

Expenditure items	Affluent Couples	Constrained Couples	Cash-Strapped Couples	Affluent Singles	Constrained Singles	Cash-Strapped Singles
Housing Rent, interest, home repairs and maintenance & body corporate fees As percentage of expenditure						
Domestic fuel & power Electricity, gas & oil As percentage of expenditure						
Food & non-alcoholic beverages Includes meals in restaurants As percentage of expenditure						
Alcoholic beverages & tobacco products Alcohol consumed at licensed premises As percentage of expenditure						
Clothing and footwear Dry cleaning, repairs & alterations As percentage of expenditure						
Household furnishings & equipment Outdoor furniture, floor and window coverings, linen and bedding, appliances, glassware, tableware and cutlery, tools & mobile phones As percentage of expenditure						
Household services & operation Cleaning and garden products, phone charges (including mobile), pest control & home cleaning services As percentage of expenditure						
Medical & health care Health insurance, doctor and dental fees, medicines and pharmaceutical products, prescriptions & hospital and nursing home charges As percentage of expenditure						
Transport Purchase, maintenance and insurance of vehicles, fuel & public transport fares As percentage of expenditure						
Communication Spending on telephone (including fixed line and mobile) Spending in internet services As percentage of expenditure						
Recreation AV equipment including TVs and pay TV, books, newspapers and magazines, camping and fishing equipment, sports equipment, internet charges, holidays & animal expenses As percentage of expenditure						
Education Primary and Secondary school fees (including school sport fees) TAFE and University fees (including HELP) Fees to all other private education institutions As percentage of expenditure						
Personal care Toiletries, cosmetics & hairdressing As percentage of expenditure						
Miscellaneous goods & services Stationery, watches and jewellery, interest payments on credit cards and all loans (excluding home loans), education, rates and charges on investment properties, accountant and tax fees & cash gifts As percentage of expenditure						
Total weekly expenditure						
Total monthly expenditure						
Total annual expenditure						

Sponsored message from Challenger

Boosting confidence in retirement

Do you know how much you can 'safely' spend in retirement? Accurium (part of the Challenger Group) can calculate with a degree of confidence the spending level your savings can safely support.

Every retirement is unique. Maybe dining out isn't your thing, but you couldn't bear to give up your weekly exercise classes.

Figuring out how much you can spend in retirement requires planning. And knowing what you can afford to safely spend, based on the savings you have, will also help you to identify any gaps between your expectations and reality.

Accurium, an actuarial business that is part of the Challenger Group, is Australia's largest provider of actuarial certificates to self-managed superannuation funds. Accurium calculates safe spending rates, taking into account changes in spending patterns over time, as well as the three major risks to your retirement income: inflation, market volatility and longevity.

By testing 2000 simulations, Accurium can calculate, with a degree of confidence, the level of spending your savings balance can safely support.

→ What is a 'safe' spending level?

A spending level is considered to be 'safe' if the household can continue spending its desired amount for at least as long as both spouses live, with the required level of confidence. You may have a different idea as to the amount you can safely spend and still have confidence that your savings will last.

The tables below, from Challenger's *A guide to a confident retirement*, are provided for illustrative purposes only and show the 'safe' spending rates (spending income from all sources including any Age Pens on ent tlement) for coup es and sing es of different leve s of wealth, retiring today aged 66. For the complete tables, download the guide.

Australian safe spending rates for a 66-year-o d male (assuming spendi g keeps p ce with inflation)

Total retirement savings[1]	Initial spending rate p.a. with 80% confidence	Initial spending rate p.a. w th 95% confidence
$250,000	$31,800	$29,300
$500,000	$36,000	$31,900
$750,000	$39,900	$33,800

Australian safe spending rates for a 66-year-old female (assuming spending keeps pace with inflation)

Total retirement savings[1]	Initial spending rate p.a. with 80% confidence	Initial spending rate p.a. with 95% confidence
$250,000	$31,100	$28,900
$500,000	$34,800	$31,100
$750,000	$38,000	$32,900

Australian safe spending rates for a 66-year-old male and female couple (assuming spending keeps pace with inflation, but drops 30% when the first spouse passes away)

Total retirement savings[1]	Initial spending rate p.a. with 80% confidence	Initial spending rate p.a. with 95% confidence
$250,000	$45,300	$41,500
$500,000	$48,500	$45,300
$750 000	$51,700	$47,300

1 Excluding principal residence

challenger

A retirement spending planner, such as those on pages 8 and 9 of this *Retirement Affordability Index*, wil help you determ ne how much you may 'need' in order to meet your basic living costs and how much you may 'want' to cover discretionary costs in order to maintain your desired lifestyle in retirement. Ideally, this should closely match what you can safely spend.

But what if there's a gap between what you think you'll be spending in retirement and what you can safely spend? If your basic living and discretionary costs are less than you can afford to spend, you may be being too conservative and not living the life that you could.

Or if your basic living and discretionary costs are more than you can afford to spend with the required level of confidence, you run the real risk of running out of savings later in life.

The retirement danger zone

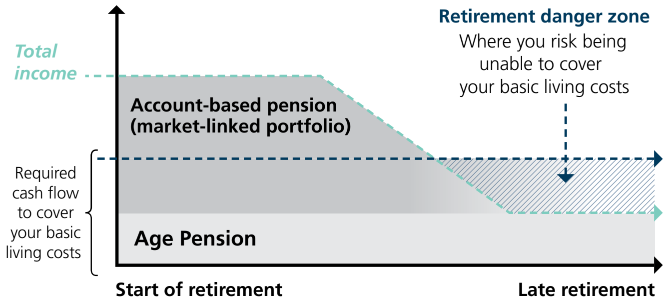
Running out of money later in life is a big concern for many retirees.

In **YourLifeChoices'** 2019 *Retirement Matters Survey*, respondents were asked if they had the amount of savings that they believed they needed for the retirement they wanted. Of the 5,100 respondents, 59 per cent said no.

There are investments you can make to ensure you don't run out of income later in retirement as there are risks that living longer, inflation and share market volatility can have on your savings and income.

If you only invest in market-linked investments, such as via an account-based pension, there is a chance that you'll end up in what Challenger has called the 'retirement danger zone'.

As shown below, this is a period later in retirement where you may be unable to continue to cover your basic living costs due to the income from your market-linked account-based pension running out.



This diagram is illustrative only and not to scale. It may include other income sources such as term annuities, term deposits, shares, managed funds and cash.

If you'd like to find out more about how to look forward with confidence in retirement, **download Challenger's *A guide to a confident retirement***

DISCLAIMER: All content in the Retirement Affordability Index™ is of a general nature and has been prepared without taking into account your objectives, financial situation or needs. It has been prepared with due care but no guarantees are provided for the ongoing accuracy or relevance. Before making a decision based on this information, you should consider its appropriateness in regard to your own circumstances. You should seek professional advice from a financial planner, lawyer or tax agent in relation to any aspects that affect your financial and legal circumstances. Before making a decision about whether to acquire or continue to hold a financial product, you should obtain and consider the Product Disclosure Statement (PDS) for the relevant product. A copy of the relevant PDS for a Challenger product can be obtained from your financial adviser, by calling 13 35 66, or at www.challenger.com.au

Key to the calculations underlying tables 1-2-3:

- *Tables are intended to be general information only and have been prepared without taking into account any person's objectives, financial situation or needs. They include calculations based on statements of opinion, forward looking statements, forecasts or predictions based on current expectations about future events and results. Actual results may be materially different from those shown.*
- *all capital is available to be used to support that level of spending (there is no assumed bequest);*
- *the statistics used to generate longevity scenarios are based on the Australian Life Tables 2010-12 with allowance for the 25-year mortality improvement rates published by the Australian Government Actuary;*
- *where relevant, on the death of one spouse, all assets and superannuation are assumed to transfer to the surviving spouse, who spends 70% of the couple's spending as some expenses are no longer shared;*
- *the investment returns and rates of inflation used have been generated by Towers Watson using their Global Asset Model;*
- *asset allocations are based on the average for funds with more than four members as published by ASFA in the March quarter 2019;*
- *tax on non-superannuation investment returns is modelled, including the seniors and pensioners tax offset (SAPTO) rules and Medicare;*
- *the Age Pension is allowed for using Centrelink means testing rules applicable from 1 July 2019, i.e. we assume the person is eligible based on residency rules;*
- *if the minimum pension payment in any particular year, as required under the Superannuation Industry Supervision (SIS) regulations, exceeds the household's spending, then this is added to the household's non-superannuation assets;*
- *all tax and Centrelink rates, bands and thresholds used are those current as at 1 May 2019. All rates, bands and thresholds are assumed to change in line with inflation each year;*
- *we have allowed for the following fees and charges:*
  - *Administrative fees of 1%*
  - *Investment management charges of:*
    – *1% p.a. on all asset classes 8 Excluding principal residence.*

Knowledge is power in juggling your spending in retirement

Will you spend more in retirement than during your working life? Will your spending change as you age? *Janelle Ward* presents the research.

Financial advisers have several ways of describing retirement spending patterns, but three popular and easy-to-understand terms are: the go-go years, the slow-go years and the no-go years. But is this actually what happens, according to the latest research?

We know there are a number of questions without answers when it comes to understanding life in retirement – longevity and healthcare costs to name just two.

So, it would seem sensible to research known spending patterns in retirement in a bid to build a level of confidence about what to expect. Generally, and acknowledging that retirement is as individual as every Australian, when does peak spending occur? Does it tail off as we get older?

But first, how is the baby boomer generation placed financially?

The Australian Centre for Financial Studies (ACFS) concluded in *Expenditure Patterns in Retirement*, which is based on the *2014 Household, Income and Labour Dynamics in Australia (HILDA) Survey*, that this is the wealthiest retired generation in Australian history.

Households in their late 50s in 2014 held 25 to 40 per cent more net wealth than their same-aged peers reported in 2002 (adjusted for inflation). The average net wealth of households aged 70–74 had almost doubled since 2002, from $562,000 to more than $1 million.

Median wealth – the middle value in a list of figures – had shown similar growth over the period – 74 per cent growth in wealth for households aged 70–74 and 36 per cent for households aged 55–59 – but at a much lower level. The median wealth of a household aged 65–69 in 2014 was $685,000, compared with *average* household wealth of $1.24 million.

But with greater household wealth and better healthcare comes longevity – the double-edged sword – and advice from the Actuaries Institute that new retirees should be planning their budgets around living to 100.

According to *Expenditure Patterns in Retirement*, household spending does not "decrease materially" throughout retirement. The ACFS analysis of HILDA data, which involved panel surveys with 9500 households across Australia, found that retired households aged 73–76 in the 2014 survey did not report lower household expenditure on an inflation-adjusted basis than they did in the 2006 or 2010 surveys.

The result is many retirees are holding money back for future years when they will never spend it.

Households in the 83–86 age range in 2014 reported slightly higher expenditure than in 2006 and 2010. The composition of the spending was fairly constant in the early years of retirement, however after age 75, food costs decreased slightly and spending on utilities increased slightly.

Expenditure patterns are integral in designing income products – and in developing your spending strategies – and based on the ACFS analysis, income products should aim to deliver a stable (inflation adjusted) income for the duration of retirement.

Think tank the Grattan Institute and international actuarial and consulting firm Milliman have a different view.

Milliman says a median retired couple's expenditure falls by more than one third (36.7 per cent) as they move from their peak spending years in early retirement (65 to 69) and into older age (85 years and beyond). "The decline in expenditure for couples is relatively stable in the early years of retirement at about six per cent to eight per cent across each four-year age band, but then rapidly accelerates once retirees pass 80 years of age," Milliman reports.

"The result is many retirees are holding money back for future years when they will never spend it."

Milliman says its *Retirement Expectations and Spending Profiles* (ESP) analysis, which includes the

latest census income data, is the first based on the actual spending of more than 300,000 Australian retirees.

The data shows that retirees' food expenditure declines steeply with age, while health spending increases but dips again after age 80. All discretionary expenditure, such as travel and leisure, declines throughout retirement.

Milliman says its findings cast doubt on some common rules of thumb, such as aiming to save enough super to replace a set percentage of pre-retirement income.

"Financial plans and products should reflect these expenditure changes over time as well as the greater risks (such as market downturns) and uncertainties (such as health events) that retirees face compared to the broader population."

Milliman says that many products aimed at retirees assume their spending will rise in line with the CPI. It warns that the investment targets of some MyRetirement (or comprehensive income product for retirement – CIPR) defaults are likely to fall into the trap.

The Australian Government Actuary released its certification test in May 2017, requiring that the constant real income delivered by CIPRs be indexed to CPI.

The Milliman ESP analysis shows that retirees' overall cost of living does not increase in line with CPI – rather, it falls – and that the components of their spending differs substantially. This means that CIPRs will assume an income target that is not in line with retirees' lifestyles, Milliman says.

So, while Milliman insists that overall spending declines, it says there are significant variations between the lowest and highest earners and to expect expenditure trends to change due to declining home ownership levels, particularly in Sydney and Melbourne.

The Grattan Institute supports the Milliman conclusion that spending in retirement declines.

Institute associate Jonathan Nolan and household finances program director Brendan Coates recently wrote that HILDA omits several important spending categories, such as recreation – the third largest category of household spending and a critical source of expenditure in retirement.

"The HILDA survey misses a lot of the spending story," the co-authors say in a blog, *Using the right survey to measure retiree spending*. "It captures only half of total household expenditure captured by the Household Expenditure Survey (HES) conducted by the Australian Bureau of Statistics (ABS).

"Unlike HILDA, which is designed to track households' incomes and work patterns, the HES is specifically designed just to measure household spending."

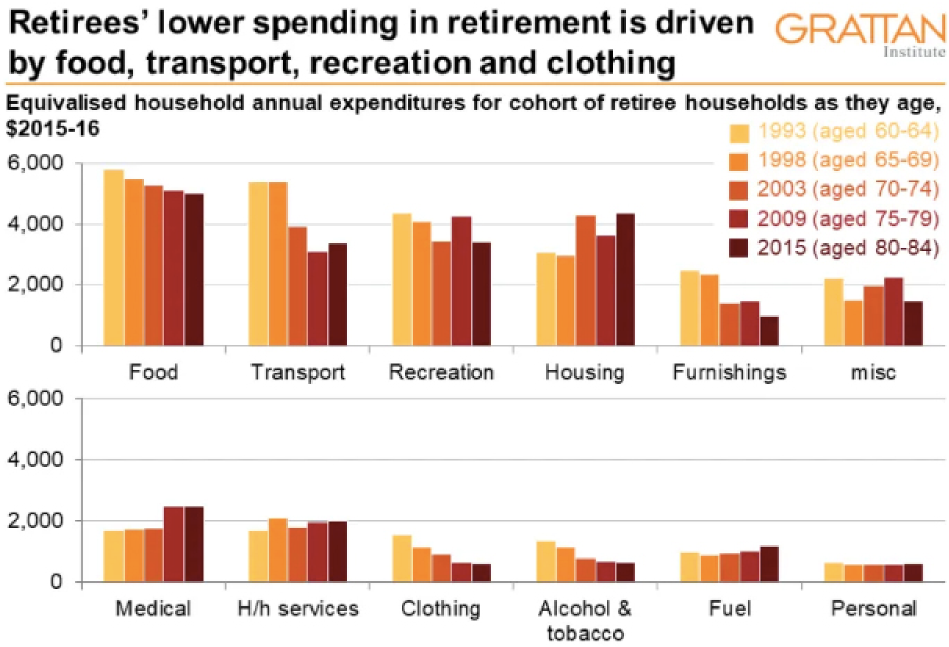
The Grattan Institute's 2018 *Money in Retirement* report uses successive waves of the HES to track how retirees' spending changes as they age.

The report found that Australians tend to spend less after they retire. "Even the wealthy eat out less, drink less alcohol and replace clothing and furniture less often," say Messrs Nolan and Coates. "Spending tends to slow at around the age of 70, and decreases rapidly after 80."

They say that retirees who own their home tend to have paid off the mortgage and no longer need to spend money on children or work-related expenses.

"Pensioners also spend less because they get discounts on council rates, car registration, electricity and gas bills, public transport fares and pharmaceuticals. Public transport concessions apply to all retirees – not just pensioners. Retirees' spending also tends to be lower because they have more time, and so cook at home more and eat out less.

"They spend more on healthcare as they age, but Medicare largely shields them from the full costs. The modestly higher out-of-pocket costs they do pay are mainly due to rising premiums for private health insurance."



Notes: Spending from 1993–94, 1998–99, 2003–04, 2009–10 and 2015–16 Household Expenditure Survey. Each line represents a single cohort across time as they age. While the age cohorts are 5 years apart, there was a gap of 6 years between the last three HES surveys. Spending deflated by CPI. Sources: ABS Household Expenditure Survey (multiple years). Grattan analysis

The Grattan authors say that international studies make similar findings, pointing to reports using the *British Family Expenditure Survey* and the *American Income Dynamics and the Consumer Expenditure Survey*. Both found spending decreases into retirement. Another prominent US study found that real spending falls by around one per cent each year in retirement.

The Australia Institute senior economist Matt Grudnoff adds: "Another thing to consider is that spending doesn't slow down *because* someone enters their 80s, it slows down because retired people slow down.

"If advances in medical science mean that 80 is the new 70, then the age at which people's spending slows will increase. That is likely to be a slow-moving effect that will push out when the decrease in spending occurs."

The Milliman and Grattan conclusions on retiree spending can help to shape plans and, possibly, ease concerns.

YourLifeChoices' *2019 Ensuring Financial Security in Retirement Survey*, completed by 3380 members, painted a very clear picture of the key concerns of older Australians.

Asked, 'How confident are you that your savings and income will enable you to maintain your current lifestyle for as long as you live?', the responses were:

- very 11.8 per cent
- somewhat 33.2 per cent
- not very 26.4 per cent
- not at all 11.8 per cent
- neutral 16.8 per cent.

Asked about their most pressing financial concerns in retirement (they could select up to three), respondents said:

- not being able to afford long-term care expenses, such as in-home care or nursing home care 42.3 per cent
- not being able to afford to live comfortably throughout retirement 41.5 per cent
- income from retirement savings not keeping up with the cost of living 39 per cent
- the possibility of outliving retirement savings 35 per cent
- the possibility of losing retirement savings because of falls in the market 33 per cent
- not being able to maintain current standards of living in retirement 33 per cent
- not having extra money on hand in retirement in the event of an emergency 32 per cent.

The costs of in-home and residential aged care are, perhaps, the sleeping giant in retirement expenditure.

In **YourLifeChoices'** *2019 Retirement Income Review Survey,* which drew almost 5000 responses, members were asked if they had planned for the cost of aged care in their home and, second, in a residential facility. Almost 80 per cent (79.4) said no to the first question and close to 90 per cent (87.4) said no to the second.

Aged Care Steps director Louise Biti says that the findings of Milliman and similar surveys are backward looking and do not take into account quality of lifestyle or future care possibilities.

"Longevity is on the rise, and so is the period of frailty," she says. "People are more likely to experience frailty in the later years of life and need support … The [aged care] royal commission is showing that the expectations for care are increasing beyond the needs or expectations of previous generations and so the cost to deliver to these expectations is increasing.

"This will increase costs for consumers, so I don't believe our living expenditure will decrease in later years.

"We are also increasingly wanting to access care in our own homes and on our own terms. Technology can facilitate this, but again at a cost the consumer will need to bear."

Knowledge is power. Over to you.

Rule of thumb can take the guesswork out of retirement

John De Ravin, actuary and co-creator of the 'rule of thumb', explains the spending-in-retirement formula and how it applies to **YourLifeChoices** tribes.

YourLifeChoices recently wrote about a 'rule of thumb' that helps to explain how much retirees should draw down from their savings.

Retirees want to neither spend too much, for fear of running out of money, but equally, they want to be able to live a comfortable life in retirement. How much is too little or too much?

The good news is that plenty of **YourLifeChoices** members read the story, and quite a few asked further questions. So, as one of the authors of the rule of thumb, I'm responding.

The main worry for retirees is, can I run out of money using the rule of thumb? And the answer is no. The rule of thumb always suggests spending as a percentage of the balance of an account-based pension (ABP), at the start of the financial year.

So, as long as you stick to the rule of thumb, it is not possible to completely run out of money.

In addition, when an ABP balance runs low, assuming that the retiree meets eligibility requirements, he or she is entitled to the full Age Pension, thus accessing two sources of income.

How the rule of thumb works

To recap, the simple, three-part rule of thumb was devised by a team of five actuaries. We ran a complex range of calculations to help single retirees who have reached Age Pension eligibility age. We assumed that the retiree would own his or her home and receive a part or full Age Pension.

People want confidence in how much they can draw down. A lot of the modelling is very complicated, and the software is expensive. But the rule of thumb is simple, easy to remember and takes into consideration a retiree's asset base and age.

The simplest rule of thumb guide is that a retiree should:

- draw down a baseline amount, as a percentage of the balance of their account at the start of the financial year, that is the first digit of their age
- add two per cent if their account balance is between $250,000 and $500,000
- the above is subject to meeting statutory minimum requirements.

So, a 68-year-old single female with an ABP balance of $375,000 would draw eight per cent (or $30,000 per year) in addition to a part Age Pension. To meet the statutory requirements around minimum drawdowns, once you are 85 or older, you need to draw at least nine per cent of the balance of your account at the start of the financial year (and higher percentages above age 90), regardless of your account balance.

The main worry for retirees is, can I run out of money using the rule of thumb? And the answer is no.

That's how the rule of thumb works for single retirees.

But many **YourLifeChoices** members asked, what happens if you are part of a couple, as most people are at retirement? Or, what happens if you are not a homeowner and rent in retirement?

How the rule works for couples and renters

My crack actuarial co-authors and I have attempted to answer some of these queries, by extending our rule of thumb. We take a look at the circumstances for a single, non-homeowner; a couple who own their home and a couple renting in retirement.

We have not performed any mathematical calculations to support the extended rules, but what we suggest is analogous to the rule of thumb proposed in our paper for single homeowners.

To derive the new rules of thumb, the first key point we noted is that the special higher drawdown for single homeowners with assets between $250,000 and $500,000 is caused by the impact of the assets test. If you are a single homeowner and your assets are in this range, there is a strong incentive to spend them down so that you are entitled to receive more Age Pension. And, so, when we turn to single retirees, who don't own their own homes, or to couples, the asset band where the extra two per cent drawdown applies, needs to move in line with the way the asset testing range moves in these different situations.

The second key adjustment we need to make when considering couples is to use the younger of the two partners' ages as the basis for the drawdown rule. That makes sense intuitively, because usually it is the younger partner who will survive for longer – especially if the younger partner is female, which is often the case.

These insights lead us to the following 'rules of thumb' for the situations not explicitly addressed in our formal paper.

Single retirees, who do not own a home and are at least 65, should:

- take the first digit of their age and draw down that annual percentage of the beginning-of-year balance of their ABP
- add two per cent if their assets, subject to the assets test, fall in the range $500,000 to $750,000
- always ensure that the amount to be drawn down from the ABP is at least the statutory minimum (especially from age 85 and above).

A home-owning couple, aged at least 65, should:

- take the first digit of the age of the younger member of the couple, using that to draw down an annual percentage of the beginning-of-year balance of their ABPs
- add two per cent if their assets, subject to the assets test, fall in the range $450,000 to $850,000
- ensure that the amount to be drawn down from each ABP is at least the statutory minimum.

A couple who don't own their own home should:

- take the first digit of the age of the younger member of the couple, and draw down that annual percentage of the beginning-of-year balance of their ABPs
- add two per cent if their assets, subject to the assets test, fall in the range $700,000 to $1.1 million
- always ensure that the amount to be drawn down from each ABP is at least the statutory minimum.

We think that the rules of thumb will be very useful to many people. But we also want to emphasise some of the key assumptions we worked from to develop the optimal drawdown rules.

What the rule of thumb assumed

If you are thinking about using our simple guide, here's what you should know about our work.

We assumed that retirees are old enough to qualify for the Age Pension, are eligible for the Age Pension and subject only to the assets and income tests.

We also assumed that singles or couples are not earning an income from employment and that there is no specific bequest motive, other than perhaps an intention to leave the family home to beneficiaries. Having said that, as noted above, if you follow the rule of thumb, there will always be something left in your account-based pension when you pass away. It's just not possible to know in advance how much will be left.

We also assumed that the assets in an ABP earned an investment return (net of expenses) at a rate equal to the rate of increase in average weekly earnings plus 3.5 per cent a year, and retirees held no assets outside superannuation other than possibly the family home.

Retirees also asked us if the real value of their spending would be maintained under the rule of thumb.

There is no guarantee that the real value of your drawdown will be maintained. If you follow the rules of thumb, whether the value of your drawdown is maintained in, say, your 70s, depends on whether your investment returns are equal to, or exceed, the rate of inflation plus your seven per cent drawdown rate.

In particular, if you survive to an advanced age, it is likely that the real value of your drawdowns will diminish over time.

Retirees also asked about the impact of holding more conservative investments and lower returns. The rule of thumb was based on an investment return equal to the rate of increase of average weekly earnings, plus 3.5 per cent.

This investment return target is reasonable for a 'balanced' fund with 70 per cent of its investments in growth assets. If you select a more conservative asset allocation, the optimal drawdown rates would be lower than those suggested by the rule of thumb. ■

John De Ravin is a retired actuary whose career included work in the Australian government actuary's office and in insurance. He has degrees in science and economics, an MBA and a graduate diploma in financial planning. He is a Fellow of the Actuaries Institute, a Fellow of Finsia and a CPA and author of *Slow and Steady: 100 wealth building strategies for all ages*.

The living costs that could hurt your retirement

Australia Institute senior economist *Matt Grudnoff* dusts off the crystal ball to help you budget for a 20 to 30-year-plus retirement.

The problem with the future is that it's notoriously unreliable. If it weren't, then planning your retirement would be easy. But given the future is as reliable as a politician's promise before an election, we need to make more guesses than we're necessarily comfortable with.

In order to estimate how much money we should have before we retire, we need to know how much products and services will cost in the future. Predicting future prices is easy if we're talking about next month or next year, but for those approaching retirement or who have just retired, it can mean looking 20 or 30 or even 40 years into the future.

How can we estimate costs that far ahead? One way is to look at what has happened to prices in the past. If this were an industry super advertisement, a man speaking in a very fast voice would be saying: "Past performance is not an indication of future performance." But, much like the super ads, I'm going to assume that you will completely ignore that warning and I'll base the bulk of my predictions on past performance.

Let's wind the clock back 21 years to June 1998. *Sex and the City* premieres on US television and *The Truman Show,* starring Jim Carey, is released in cinemas. If you retired in June 1998, there is a very good chance that you're still alive (particularly if you're reading this now). But the prices of many things have changed significantly since then.

While people talk about how the cost of living has increased, we know that all prices don't increase at the same rate. Some things go up faster and some things have even dropped in price.

Since June 1998, the Consumer Price Index (CPI), or the average price of a basket of goods, has increased by about 70 per cent. Some goods have gone up a lot faster than the average. The top five are shown in the figure below left, along with the CPI.

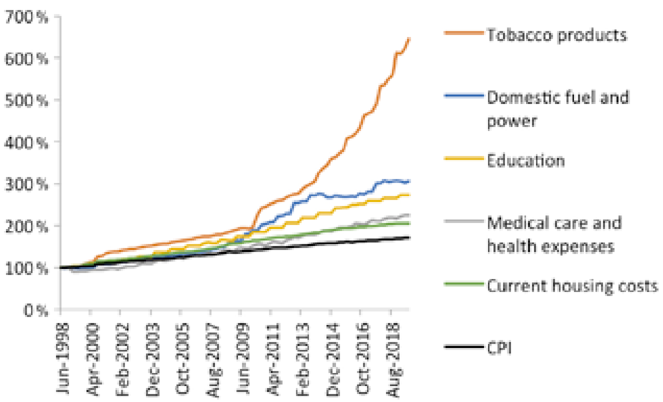
We can see that the biggest price increase has been in tobacco products. In fact, tobacco products have gone up more than twice as fast as the next biggest increase – domestic fuel and power. The reason for this almost six-fold increase since June 1998 is, largely, taxes.

The take-out message from this might be if you're planning to retire and smoke you might want to put more money aside, because smokers are likely to continue to be heavily taxed. Of course, given that smoking increases the likelihood of an early death, you might not need to put away as much as you think.

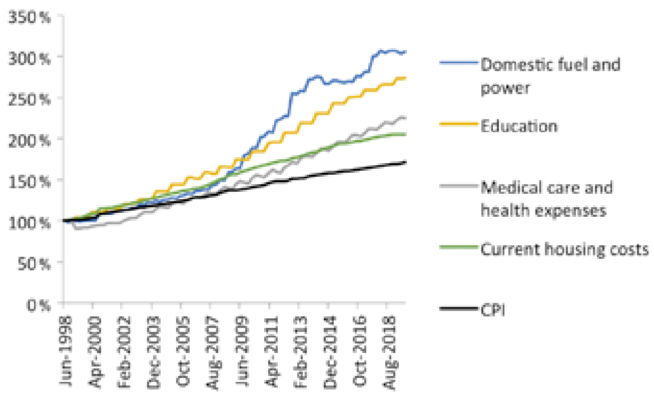
The increase in tobacco products is distorting our graph, so let's take it out so we can better see what is happening to our other biggest movers.

We can see (below right) that the next biggest mover is domestic fuel and power. This is dominated by the price of electricity and natural gas. Is this likely to continue to increase in price? The reality

Products and services that have increased the most since 1998



Biggest movers, excluding tobacco products, since 1998



is that most of the increase has been due to bad regulation (gold plating of the networks) and a lack of energy policy leading to a reluctance to invest in new generation.

In order to know what will happen to energy prices in the future, we need to predict how politicians are going to act and that's not easy. What is easier to predict is the continuing fall in the price of solar, wind and storage. These new technologies are likely to push down the price of electricity. High energy bills can also be offset – if you have some money on hand – by installing solar panels.

Education is the next biggest increase, and while that's likely to affect your grandkids, it's less likely to have an impact on your costs in retirement.

Medical care is a completely different matter. This is likely to become a bigger component of your spending as you age. It's also likely to continue to increase in price as we invent new and ever more expensive ways to extend our lives. Private health insurance might seem like a way to hedge the costs, but as health costs rise, private health insurance is also likely to go up in price.

There is a strange perverseness to the cost of healthcare in retirement. The more we improve our health, the more expensive it becomes. And as we succeed in living longer, the cost of retirement continues to rise. While everyone, including the government, likes to complain about it, there is unsurprisingly not much appetite to cut back on healthcare.

The last big price mover is housing costs. This one suffers from poor government policy. Are rising house prices good or bad? Ask that of your local politician and you can rest assured you won't get a straight answer. If you own your home, then you're more likely to think rising house prices are good. If you don't, then you're more likely to think they're bad.

The same applies in retirement. If you own your home, then rising housing costs are less likely to be an issue. But if you don't, then this, more than any other factor, is likely to put you under financial pressure.

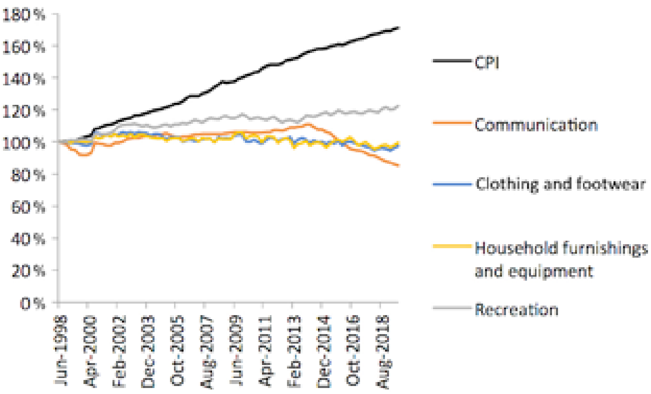
The increasing cost of housing is unlikely to change unless we have wholesale change in government policy to treat housing as an essential service rather than as a tax preferred investment opportunity. The other, far worse, event that would improve housing affordability is a recession that forces distressed, heavily indebted households to sell causing a big fall in house prices. Policy change would be much better than economic and housing market collapse.

In the categories that have seen rapid price increases over the last 21 years:

- tobacco is likely to continue to rise as the government realises taxing smokers doesn't cause much of a public backlash
- domestic fuel and power is likely to moderate as we shift to newer, cheaper forms of power
- medical care is likely to rise faster as we introduce more expensive ways to improve our health
- housing costs are the biggest unknown because they depend on government policy and the state of the economy.

Not all prices have shot up since 1998. Some have increased at a much lower level than the CPI and some have even fallen. The four lowest price increases are shown in the graph below.

Products and services that have increased the least since 1998



Amazingly, three categories have fallen in price since 1998 and are lower today than they were 21 years ago. They are communication, clothing and footwear, and household furnishings and equipment. Recreation has increased in price but only by about 22 per cent in 21 years.

Technology drove the fall in communication through the massive increase in the quality of mobile phones. Lower prices for clothing and footwear and household furnishings and equipment are a result of mass production in countries with low wages. Recreation was a combination of lower airfares and a fall in the price of computers, with personal computers in the recreation category.

How much will essential products and services cost throughout your retirement? That's difficult to answer, but if the past is anything to go by, not smoking while owning a home with solar panels would have meant that you avoided the worst of the price rises. Things might be trickier for the next generations though, as home ownership rates continue to fall. ■

Noel Whittaker helps these 'typical retirees'

Could these retirees from the **YourLifeChoices** tribes be better placed? Personal finance expert *Noel Whittaker* assesses their financial health and tells what they should change.

The case studies presented here describe possible scenarios that would be typical to many of today's retirees. But it's important to understand that all Australians, and particularly retirees, live with uncertainty.

For retirees, the main issues are the state of their health, whether or not their children need assistance, and the rate of return they can achieve on their assets given interest rates, inflation and changes to the superannuation and pension rules.

My responses are indicative of what may happen in the future and a guide to possible strategies. Retirees should closely examine their affairs at least once a year to ensure that their investment strategies are on track and their estate planning is up to date.

Retirees also face the juggling act of having part of their assets in growth, where volatility is the norm, while keeping enough cash on hand for at least three or four years of planned expenditure.

I am happy with assuming returns of around seven per cent for superannuation, but members must understand that this is a long-term average. For example, a fund may return 12 per cent one year and two per cent the next.

YourLifeChoices members should make themselves familiar with the calculators on my website, www.noelwhittaker.com.au They are simple to use and great for modelling possible outcomes.

For example, the Retirement Drawdown Calculator lets you model your retirement drawdowns and the Compound Interest Calculator allows the user to work out the growth of his or her assets.

The Stock Market Calculator allows users to enter a notional sum, invested on a starting date of their choice, and find out what they would have had on a given closing date if the investment they chose matches the All Ordinaries Accumulation Index that includes income and growth.

Many retirees are concerned about low rates on term deposits, but it's important to understand that if the term is short, the rate does not have a big impact. For example, Constrained Couple Joan and Brian have $80,000 in a term deposit earning 1.5 per cent interest. I recommended drawing down on that at the rate of $17,000 a year. At an earning rate of 1.5 per cent, the money would be gone in 4.5 years. If a rate of three per cent could be achieved, the money would last just six months longer.

→ Case study 1

Affluent Couple (homeowners with private income)

Sally and Andrew
Ages: 64 and 66
RAI estimated expenditure: $76,208
Couple's estimated expenditure: $70,000
Mortgage: $100,000
Superannuation: $600,000 (combined)
Shares: $305,000
Cash: $45,000 term deposit (1.5 per cent interest)
Wages: Sally $15,000pa
Age Pension: Not eligible

Q. Sally and Andrew

We are spending nearly $70,000 a year (slightly less than our retirement tribe but still a lot) and are worried that, given such low interest rates, we will burn through our capital. How long do you think our savings will last before we become fully reliant on an Age Pension? Sally earns about $15,000 a year as a part-time teacher's aide and hopes to fully retire when she is 66. Can we organise our retirement savings better? What else should we consider?

Noel says: We don't know what the repayments are on the mortgage, but at their age I would expect a five-year term maximum, which would take a big chunk of their money in repayments. Therefore, I believe it's a no-brainer that they withdraw $100,000 from their superannuation to pay out the mortgage.

This would reduce the balance to $500,000. If we put $30,000 as the value of their personal effects, their total assets for Centrelink purposes become $880,000.

This is just a shade over the assets test disqualifying limit of $863,500 for a couple.

I don't think they should be adopting strategies to get a part Age Pension, because the shares should be growing by at least six per cent a year, which would equate to $18,000 a year. Therefore, it could be an 'on-again off-again' process for the Age Pension, depending on what the share market does.

Furthermore, a person who just scrapes in for the Age Pension is basically doing it for the Health Care Card. If we put the value of that at $5000 a year, I reckon it's pointless to spend $30,000 to get under the cut-off limit for the Age Pension assets test. It would take at least six years to get your money back.

To allow for contingencies, it may be simpler long term to ignore Sally's income and treat that as a bonus. Therefore, we could run the numbers based on living off their superannuation at the rate of $70,000 a year.

The next step is to make assumptions about inflation, the rate of return from the superannuation and the rate of return from the shares. For this exercise, I will assume that inflation is one per cent, the shares achieve eight per cent income and growth combined, and the super fund returns seven per cent.

If we run their superannuation through my Retirement Drawdown Calculator, we can see that on the assumption of an earning rate of seven per cent, annual drawdowns of $70,000 indexed one per cent, their superannuation balance should be down to $287,000 after five years.

But their shares are compounding, so after five years the share portfolio should be worth around $470,000. This would mean that their total assets then would be around $800,000, which should be under the pension cut-off point in five years. This, of course, assumes that there won't be any major changes to the Age Pension asset limits or to treatment of the family home.

I don't recommend any big changes, but they should watch their asset values and, if there is a market fall, get straight on to Centrelink, because they might become eligible for a part pension.

They should also keep at least three years of anticipated expenditure in cash to give themselves a buffer if there is a big market correction. Of course, any kind of casual work that either could do would be a big help to their finances, as would any savings they could make to their expenditure.

→ Case study 2

Constrained Couple (homeowners on an Age Pension)

Joan and Brian
Ages: 72 and 74
RAI estimated expenditure: $43,818
Couple's estimated expenditure: $48,500
Mortgage: Nil
Superannuation: $322,000 (combined)
Shares: $12,500
Cash: $80,000 term deposit (1.5 per cent interest)
Wages: Nil
Age Pension: $15,444 pa (combined)

Q. Joan and Brian

We thought we were living within our means, but we are spending about $48,500 per year. We are earning very little on our term deposit and are worried that we can't sustain this for much longer. How do we better arrange our affairs? Would an annuity work as we think it is now part of the assets test? Can you help us to understand how long before we will consume all our capital? Is there anything we should be doing to maximise our income and stretch our savings?

Noel says: Joan and Brian are currently assessed under the assets test because their total assets are $434,000 if we add $20,000 as the value of assets such as cars and furniture.

Pensioners should note carefully that for assets test purposes, items such as furniture and cars are not valued at replacement value but at garage sale value. This puts a limit of around $5000 on most people's furniture, while cars should be valued as if they were being sold for cash to the local car dealer.

I assume Joan and Brian's superannuation will be in pension mode, which means they are required to make minimum annual withdrawals. The requirement is currently five per cent of the balance, but this will rise to six per cent of the balance when they are aged between 75 and 79. This makes the annual drawings from super $16,100 a year. Add in the $15,444 Age Pension and the total is about $31,500 a year. This means that they will need to draw $17,000 a year from their savings to balance the budget.

If we run the numbers using my Retirement Drawdown Calculator, we can see that the money in the term deposit will be fully used up in just under five years. If we then run the same numbers on their superannuation, using an earning rate of seven per cent per annum, we can see that at the end of five years the balance should be about $354,000.

This reduction in their assets of $80,000 should increase their Age Pension entitlement by $6240 at the end of those five years, provided there are no major changes to the assets test disqualifying limits.

At the end of five years, their shares should be worth around $19,000 if they have left them untouched and have reinvested all dividends. They will also receive a small cash bonus from the refund of franking credits.

I don't believe an annuity is an appropriate choice because they would be locking in today's low rates of return for the rest of their lives. In any event, they can create their own annuity by simply drawing down on their superannuation.

It's important they make sure that this superannuation is in one of the better performing funds. The rate of return, and the fees, are the two major factors that determine how long their superannuation will last.

It is important that they take good advice to ensure that they are optimising the returns from investments, and advising Centrelink as their balances reduce, because every $10,000 reduction in assets is worth an extra $15 a week in Age Pension. They should also ensure that they have non-financial assets valued as low as possible.

→ Case study 3

Cash-Strapped Single (renter on an Age Pension)

Jenny
Age: 68
RAI estimated expenditure: $23,145
Jenny's estimated expenditure: $27,000
Mortgage: Nil
Superannuation: $80,000
Shares: Nil
Cash: $2000
Wages: $3500 pa
Age Pension: $24,258 pa

Q. Jenny

With more than one third of my full Age Pension of $933 a fortnight going on rent, I have very little discretionary spending – and not much to back me up if something goes wrong. I am worried that I'm going to have to give up my private health insurance – it seems simply unaffordable now. Is there anything I can do to make the sums work? I do part-time babysitting and earn about $3500 per annum from this.

Noel says: This is an example of the challenges faced by single people who arrive at retirement without a house. And, sadly, their numbers appear to be growing. Jenny should make sure she takes advantage of every concession that governments at all levels offer, and also visit websites such as Simple Savings that give thousands of ideas on ways to save money. Even saving one dollar a day is worth close to $400 a year.

It's great that Jenny has some money from employment – because employment does not just provide that extra income, which is so critical, but also contributes to health and wellbeing. A job provides a reason to get out of bed in the morning.

I also believe that people at every level should develop some kind of a buddy system – a person or persons with similar values and goals, with whom they can meet regularly, preferably weekly, to encourage each other and think about ways to improve their financial situation. It's a great source of motivation, and will almost guarantee ongoing support when those inevitable situations arrive and Jenny feels down and out of her depth.

My initial thoughts were that Jenny should cash in her super. That way she could save ongoing fees and be free of the death tax that might be incurred by her beneficiaries when she dies. But that begs the question as to what she might do with the money. She would be lucky to get one per cent in a

bank account, and the type of superannuation fund she is in should have been paying her between six and eight per cent per annum. The only way for her to get better returns would be to invest in a range of managed funds that are heavily invested in the share market.

But the problem here is that if she is inexperienced in do-it-yourself investing, she would need to get advice. The challenge is that the financial advice industry is so heavily regulated she would need a full financial analysis, which involves a long consultation and would cost at least $3000. That's money she can't afford.

On reflection, I think she is better off leaving her superannuation alone. She could relax and enjoy the monthly income, and the fact that her money is being professionally managed. She could still make withdrawals at call whenever she needs money. ■

Noel Whittaker is the author of *Making Money Made Simple* and numerous other books on personal finance.

Government update

YourLifeChoices keeps you up to date with government changes that could affect your retirement.

Retirement income review

The government's retirement income review will deliver its final report in June 2020.

Treasurer Josh Frydenberg announced the review in September 2019 after it was recommended by the Productivity Commission in its report, *Superannuation: Assessing Efficiency and Competitiveness.* It comes 27 years after the establishment of compulsory superannuation.

The review is considering the state of the retirement income system and how it will perform as Australians live longer and the population ages; the incentives for people to self-fund their retirement; the sustainability of the system; the role of the three pillars of the retirement income system, and the level of support provided to different cohorts.

YourLifeChoices has surveyed its members on the good and the bad of the retirement income system and will submit a paper in early 2020.

Aged care inquiry

The Royal Commission into Aged Care Quality and Safety continues in 2020 after handing down an interim report titled *Neglect* in November 2019.

That report found the nation's aged care system to be a national failure and a "shocking tale of neglect". It urged immediate action on the use of chemical restraints and additional Home Care Packages for the thousands on waiting lists. The government quickly pledged $496.3 million for an additional 10,000 Home Care Packages.

The final report will be handed to the Governor-General in November 2020.

Anyone with concerns about the quality and safety of aged care can contact the Aged Care Complaints Commissioner on 1800 550 552 or lodge a complaint online.

Age Pension

The Age Pension is indexed twice yearly, with payment rates due to change in 2020. Current payments for the pension, supplements and rental assistance are as follows:

Maximum fortnightly Age Pension payment rates

	Previous	Current	Increase
Single Base	$843.60	$850.40	$6.80
Supplement	$68.50	$68.90	$0.40
Energy Supplement	$14.10	$14.10	—
Total	$926.20	$933.40	$7.20
Couple (each) Base	$635.90	$641.00	$5.10
Supplement	$51.60	$51.90	$0.30
Energy Supplement	$10.60	$10.60	—
Total	$698.10	$703.50	$5.40

The Pension Supplement is a fortnightly income support payment to help eligible recipients meet the costs of daily household and living expenses.

Pension Supplement* basic amount

	Previous	Current	Increase
Single	$23.80	$23.90	$0.10
Couple separated	$23.80	$23.90	$0.10
Couple (each)	$19.60	$19.70	$0.10

Pension Supplement# minimum amount

	Previous	Current	Increase
Single	$36.70	$37.00	$0.30
Couple separated	$36.70	$37.00	$0.30
Couple (each)	$27.70	$27.90	$0.20

** Pension Supplement basic is for those receiving a pension while overseas.*
 # Pension Supplement minimum is for those paid a pension under the transitional rules.

Rent assistance

Rent assistance is paid to those who rent privately and receive an income support payment. Those who rent from a housing authority are not eligible.

Rent Assistance rates if you do not have dependent children

Family situation	Maximum payment per fortnight	Maximum payment is paid if your fortnightly rent is more than	No payment if your fortnightly rent is less than
Single	$138.00	$307.20	$123.20
Single, sharer	$92.00	$245.87	$123.20
Couple	$130.00	$372.73	$199.40
One of a couple who are separated due to illness	$138.00	$307.20	$123.20
One of a couple, temporarily separated	$130.00	$296.53	$123.20